

The ABCs of RMDs and QCDs

Donating to charity can be good for your soul — and your tax bill

RMDs, or Required Minimum Distributions, are the minimum amounts that the federal government requires Traditional IRA (or other qualified retirement plan) holders to withdraw starting the year they turn 70 ½. Uncle Sam doesn't let us defer taxes on our retirement accounts forever. And if RMDs are not taken, significant penalties will apply.

Fortunately, the government can also be flexible. In December of 2015, Congress passed the Consolidated Appropriations Act of 2016, making the former temporary Qualified Charitable Distribution (QCD) provisions — which allow tax-free transfer of RMDs to charity — permanent. Individuals can give up to \$100,000 of gross income to a qualified charity from an IRA annually without increasing their adjusted gross income (AGI). Married individuals filing jointly can donate up to \$200,000 tax-free. The receiving charity must be a 501(c)(3) organization, such as the NWFCU Foundation, the philanthropic arm of the credit union.

Unlike in the past, a QCD transfer can be done anytime of the year, not just in December. The funds must be transferred to the charity directly from your IRA custodian in order to be excluded from your AGI. In other words, you can't have the funds made payable to you, deposit them to your checking account and then send a check to the charity of your choice. Although you can have the funds mailed to you to personally send to your chosen charity, the check must be made payable to the charity.

Reducing your taxable income through a QCD offers several other tax benefits beyond making your RMD a nontaxable event. These include avoiding the 50 percent limitation on deducting charitable contributions, taxes on Social Security benefits and federal capital gains taxes — depending upon your situation and how much you're donating. Your financial or tax advisor can direct you on the ins and outs of making a charitable contribution from your IRA so that when tax time comes back around, not only will your soul be better off, so will your wallet.

Sources:

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Jones, Michael J., "IRA Qualified Charitable Distributions Reinstated, Made Permanent," *Wealthmanagement.com*, December 21, 2015, Accessed 9/12/17. <https://goo.gl/EeavfP>

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