

TURN IRAS INTO A FUNDING SOURCE FOR CHARITABLE GOALS

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We can think of a few problems that are worse than being forced to withdraw money you don't need. But it's a problem that is nevertheless imposed on many high-income retirees.

The IRS mandates people aged 70½ with Traditional IRA and 401(k) accounts to begin taking **required minimum distributions (RMDs)**. Our tax collector reckons that these accounts have been funded with pre-tax or tax-deductible dollars, so the only way to guarantee they'll be taxed is by compelling retirees to distribute them as income.

RMDs may not be a major problem, but they can create unwelcomed consequences for high-income retirees with high marginal income tax brackets. It's easy to imagine high-income retirees having little need for RMD income and being more concerned about the proportionately larger tax bill they'll create.

Fortunately, our legislators have big hearts, and they've consistently reaffirmed the right of retirees to make **qualified charitable distributions (QCDs)** in lieu of taxable RMDs. There are caveats—this is tax law, after all—but the Tax Cuts and Jobs Act signed into law at the end of 2017 preserved QCDs largely untouched.

That's good news for all involved. High-income retirees earn the dual benefit of providing material support to causes they cherish, and they can avoid, or at least minimize, uninvited tax consequences. Their chosen charitable organizations can fund ongoing or new projects. And the IRS...on second thought, it's good news for everyone but the IRS.

We can walk through the steps necessary to determine RMD levels, introduce the rules and limitations that govern QCDs, and explore how to find the right charitable organizations for making this specific type of gift.

RMDs are a Moving Target | The formula for dictating RMD levels has two main inputs: your previous year-end account balance and your age at the end of the current year. These figures produce a **withdrawal factor** that can be used to divide your account balance and determine your RMD. The higher your age, the lower your withdrawal factor, which means your RMD will grow over time, with all else equal.

It's all a bit complicated, which is why the SEC, FINRA, and AARP offer calculators to help determine RMDs.

Think of QCDs as a Limited RMD Offset |

To be precise, QCDs are not tax-deductible—they're simply exempt from being included as taxable income. These assets have already received preferential tax treatment on their way into your retirement account, and they've likely been appreciating in value tax-free as well. In short, QCDs will help you avoid the higher tax bill that an RMD would otherwise cause.

Even here, QCDs have limits. Distributions up to \$100,000 per taxpayer can be characterized as QCDs, but anything over that limit will still be subject to taxation. Remember that the higher your age, the higher your RMD, so the \$100,000 threshold would cover the entire annual RMD up to account balances of:

- \$2.74 million at 70 ½ years old in the first half of 2018.
- \$2.29 million at 75.
- \$1.87 million at 80.

All Charitable Organizations are not Created Equal (for QCD purposes) |

There are two essential steps in finding an organization that can receive your QCDs. First, it must be registered as a 501(c)(3), which means it meets a high bar for tax-exempt status. These charitable organizations must truly be not-for-profit and they must be disengaged from political activities.

Also, retirees can't receive RMDs themselves and then send money along to their intended charitable organization. The funds must be transferred directly from your retirement account administrator to the charity—either electronically or by check—in order to count as a QCD.

RMDs can be the source of rare instances when unneeded money creates unwelcomed tax consequences. QCDs enable retirees to minimize or totally eliminate those consequences by making a real positive difference. Retirees that are wondering how to manage unneeded RMDs don't need to look any further than the solution QCDs provide.

For more information, please call [407.585.1160](tel:407.585.1160)