

Qualified Charitable Distributions from IRAs

The “Tax Cuts and Jobs Act” passed in December 2017 makes donations from IRAs directly to charity an even more powerful way to give money. Why? Because the Act nearly doubles everyone’s standard deduction beginning in 2018. The “standard deduction” is the amount all taxpayers can deduct from their taxable income instead of itemizing deductions. The percent of taxpayers itemizing deductions dropped from 30% in 2017 to approximately 10% beginning in 2018. What this means for many seniors who are 70 ½ or older is that the only way to reduce their tax bill is to make charitable donations directly from their IRA. (A direct gift from an IRA to a charity is called a “Qualified Charitable Distribution” or QCD). While we don’t make gifts to reduce taxes, giving smartly enables us to give more, or have more left over.

If you are age 72 or older and have money in an IRA or other qualified retirement plan, you must withdraw a “Required Minimum Distribution” annually and the amount withdrawn is subject to tax. If you don’t withdraw your “RMD”, the IRS can assess a 50% penalty. However, you can direct your IRA custodian to pay all or a part of that required distribution (up to \$100,000 annually) directly to Asbury and/or other qualified charities and avoid paying taxes on the distribution while still utilizing the increased standard deduction. These direct roll-over distributions count toward your RMD. (If your retirement funds are in another type of retirement account, such as a 401(k), you must first transfer the funds to an IRA, and that must be done prior to the year of your QCD.) So, a senior can utilize the higher standard deduction while still excluding their RMD from taxable income.

Excluding an RMD from taxable income can save taxes in other ways too. It may...

- Reduce the amount deducted from your monthly social security for Medicare,
- Reduce or eliminate the amount of tax paid on your social security income, and/or
- Reduce or eliminate the 3.8% Medicare surtax levied on other income.

And, even if itemizing deductions is still advantageous, subtracting an RMD from one’s income may...

- Increase deductions for medical expenses, and/or
- Avoid the annual limit on deductible charitable donations.

Whether or not these tax savings are available to you depends on your individual tax situation, but there are a few instances in which this way of donating does not save more tax. Asbury cannot provide financial or legal advice and strongly encourages you to seek specific advice from your financial, tax, and/or legal advisors to determine if this way of donating benefits you.

For additional information and assistance, please contact:

Leah Gardner, Director of Finance
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Asbury United Methodist Church has a form to assist you in requesting a charitable distribution from an Individual Retirement Account. Please contact Leah Gardner and she will provide you with the form.