

Guide to Required Minimum Distributions and Qualified Charitable Distributions

Situation Analysis:

Many taxpayers contributed to **Individual Retirement Accounts (IRAs)** for years, are age 70-1/2 or older, and now face mandatory withdrawals that can substantially add to taxable income and their tax liability. This can present financial challenges.

Summary Objectives:

1. Define and explain **Required Minimum Distributions (RMDs)**.
2. Define and explain **Qualified Charitable Distributions (QCDs)**.
3. Provide information on a strategy and potential option available to many taxpayers with an IRA that are 70-1/2 and older, or are nearing that age. This strategy/option can offer tax savings while giving to others through **QCDs**.
4. Relate the impact of the 2018 U.S. Federal income tax restructure designed to reduce taxes and simplify tax filing. Specifically, one of the significant changes involves standard deductions that were increased to accommodate a much larger population of taxpayers who previously itemized their deductions.
 - *The Bad News*. This will likely affect charitable contributions since these expenses will now be transparent within the standard deduction category.
 - *The Good News, at least for those age 70-1/2 or older with IRAs and RMDs*. Transparency under the standard deduction category may work for you, as it could allow you to take advantage of a smart, tax-savings strategy through QCDs.
5. State arrangements necessary for QCDs to be IRS compliant, and required information for donations.

The sections below address each of the above objectives.

Situation Analysis: How did the IRA / RMD challenge occur, and what can we do about it?

Those of us who have IRAs knew the time would come when taxes would need to be paid on our pre-tax savings. The premise was our income and tax rate would be lower when our RMDs commenced. What some of us may not have fully grasped nor accurately anticipated was our taxable income at retirement—the total of our pensions, annuities, Social Security benefits, interest, dividends, capital gains, etc. On the surface, more income sounds like a good problem to have. However, when you add substantial pre-tax RMDs, which trigger increases and adjustments to other items. Suddenly our new tax liability is staggering. While those withdrawing an RMD for the first time speak of their shock and angst, not taking the RMD was not an option due to the severe federal penalty taxes. So the question is, what can we do to mitigate the trauma of RMDs and/or identify a strategy that will work for us to achieve a tax advantage/savings benefit? Let's start with the basics. The strategy will follow!

1. What is a Required Minimum Distribution (RMD)?

- An RMD is the minimum amount you must withdraw on an annual basis from your traditional IRA account, typically beginning the year you reach age 70-1/2.
- The RMD for each year is determined by dividing the IRA account balance as of December 31 of the prior year by the applicable life expectancy factor (available in the IRS Uniform Lifetime Table by locating your age, then life expectancy).
- The amount of the RMD may be withdrawn throughout the year, in whole or part, as long as the total requirement of the RMD is withdrawn by December 31.
- RMD withdrawals count as “above the line” from a tax perspective, and are combined with other taxable income. As such, RMDs increase your Adjusted Gross Income (AGI) and tax liability.
 - In addition, RMDs can impact other items, increasing the taxable amount of Social Security benefits, driving income-related adjustments, and causing Medicare Part B and Part D premiums to go up.
 - RMDs can also affect your income tax bracket.

- Amounts can be withdrawn from your IRA greater than your annual RMD. However, the total amount withdrawn is treated as taxable income in that year, except for QCDs up to the amount allowable.
- **WARNING:** If individuals don't take their RMD withdrawals, or take less than they should, they will owe a **50 percent federal penalty tax** on the difference between the amount withdrawn and the amount that should have been withdrawn. This penalty tax is added to the RMD requirement already owed.

2. What is a Qualified Charitable Distributions (QCDs)?

- A QCD is a distribution from your Required Minimum Distribution (RMD) up to the maximum annual exclusion from taxable income of \$100,000. It applies toward your annual RMD requirement, in whole or in part.
 - For joint returns, a spouse can also have a QCD up to the maximum annual exclusion of \$100,000.
- A QCD can exceed your annual RMD if you wish to make one or more substantial charitable contributions while living.
 - If a QCD is in excess of the \$100,000 limit, it will be included in taxable income along with other distributions.
- **A QCD must be sent directly from the IRA Trustee/Custodian to a qualified charity, i.e., a 501(c) (3) non-profit organization.** The check/transfer must be issued in the charity's name, or it will be taxable.
- You can also request your IRA Trustee/Custodian to send QCDs to multiple qualified charities the same year.
- Charities not qualifying for QCDs include private foundations and donor-advised funds.

QCD Scenarios/Examples

- If 70-1/2 or older with an IRA and currently have an RMD set up for automatic payments annually (especially early in the year), you may want to turn off the payment and instead request two distributions (1) a QCD for the charitable contribution, and (2) the remaining RMD amount for personal use or reinvestment.
 - *Example:* You had it set to automatically receive a distribution of \$24,000 in January, the amount that satisfied your RMD requirement for the year. You could stop the automatic distribution and subsequently request two distributions, a \$10,000 distribution sent directly to a qualifying charity of your choice (a QCD), and a \$14,000 RMD.
- If 70-1/2 or older and automatically receive monthly distributions from your IRA, you may want to reduce the amount by what you intend to give to charity to preserve the QCD strategy.
 - *Example:* If an individual receives \$2,000/monthly (\$24,000/annually) from their IRA and wishes to give \$10,000 to charity through a QCD, they need to reduce the monthly amount of their IRA distribution to \$1,167 (\$14,000/annually) to preserve their strategy of a \$10,000 QCD.

3. Are you aware of the tax-savings strategy that may be an option for you?

If you are 70-1/2 or older and have a traditional IRA, there is a smart strategy involving your annual RMD that permits you to receive a tax benefit from QCDs. The extent of the tax savings, will, of course, depend on the size of your IRA account, and the amount of your annual RMD and QCD. (Note: For you to use this strategy, it will be necessary to claim the standard deduction explained below.)

- QCDs are not reflected as taxable income, trigger no adders, adjustments, or additional premiums, and are not included in Adjusted Gross Income. As such, QCDs do not contribute to your tax liability and do not potentially raise your tax bracket.
- QCDs permit you to leverage pre-tax dollars for your charitable contributions versus using after-tax dollars.
- QCDs are a wonderful way to donate to a capital campaign and see your investment become a reality, fulfill an annual stewardship commitment, or provide a gift in honor or memory of a loved one.

4. **Did you know tax changes of 2018 affecting charitable contributions may still work for you in 2019?**

In 2018, standard deductions for Federal income tax increased, with the amount geared to include qualified expenses previously itemized by a much larger population. As a result, many individuals will no longer be able to itemize expenses for charitable contributions, medical expenses, state and local taxes, mortgage interest, and real estate taxes, unless their expenses are above the standard deduction amount and they can substantiate expenses with documentation in the event of an audit.

Under the 2018 Federal tax plan that **also applies to 2019**, treatment of Qualified Charitable Distributions (QCDs) is as follows:

- If taxpayers are using the standard deduction when filing their taxes, they will automatically receive the benefit of the standard deduction amount according to their filing status, **AND** they will also receive the amount of the **QCD**, as a tax-free transfer up to the \$100,000 annual maximum allowable exclusion from taxable income.
- However, if taxpayers itemize deductions, they **cannot double-up on tax breaks** by taking the charitable contribution deduction on Schedule A and receive the benefit from the QCD as a tax-free transfer up to the \$100,000 annual maximum allowable exclusion from taxable income.

Filing Status	Standard Deductions for 2019
Single	\$12,200
Head of Household <i>(See the official IRS guidelines on their website)</i>	\$18,350
Married Filing Separately	\$12,200
Married Filing Jointly	\$24,400
Qualifying Widow(er) <i>(See the official IRS guidelines on their website)</i>	\$24,400
See ADDITIONAL Standard Deductions for Tax Year 2019 below that apply, as applicable	

ADDITIONAL Standard Deductions for Tax Year 2019, as applicable, based on:
<p>Age: If you are age 65 or older, you may increase your standard deduction by \$1,650 if you file Single or Head of Household.</p> <p>If you are Married Filing Jointly and you OR your spouse is 65 or older, you may increase your standard deduction by \$1,300.</p> <p>If BOTH you and your spouse are 65 or older, you may increase your standard deduction by \$2,600.</p>
<p>Blindness: If you are legally blind, you may increase your standard deduction by \$1,650 if filing Single or Head-of-Household.</p> <p>If you are Married Filing Jointly and you OR your spouse is blind, you may increase your standard deduction by \$1,300.</p> <p>You may increase your standard deduction by \$2,600 if BOTH you and your spouse are blind.</p> <ul style="list-style-type: none"> • To qualify as blind by the IRS, you must keep in your tax records a certified letter from an eye doctor (or optometrist) stating that you have non correctable 20/200 vision in your best eye or that your field of vision is restricted to 20 degrees or less.

Limits to Standard Deductions: Be aware of the following limits to standard deductions in the event that any apply to you:

- **Dependents:** Your standard deduction may be reduced if you are claimed as a dependent on another person's tax return. If you were another person's dependent during a Tax Year, your standard deduction would generally be limited to the greater of \$1,100 or your earned income plus \$350. Learn more about who qualifies as a dependent.
- **Married Filing Separately:** If your filing status is Married Filing Separately, and your spouse itemizes deductions, you may not claim the standard deduction. If one spouse itemizes deductions, then the other spouse must itemize in order to claim deductions.
- **Nonresident Aliens:** Nonresident aliens and dual-status aliens are not allowed to claim the standard deduction and must itemize in order to claim tax deductions on Form 1040NR.
- **Disaster Loss:** Your standard deduction may only be increased by the net amount of any disaster loss you suffered if your area is a federally declared disaster. This is the same amount you would report as an itemized deduction if you were itemizing.

5. How do you arrange a QCD?

If you'd like to see your years of work make a real difference helping others, and at the same time, receive a tax benefit, this is a wonderful opportunity to do so. We hope you'll consider a QCD to St. Mark's United Methodist Church, and join us in the commitment to our mission:

"Changing the world through Christ by caring for all people."

The instructions that follow are important for compliance with IRS requirements in order to receive tax benefits from QCDs:

- A. Contact your IRA Trustee/Custodian, tell them you want a **Qualified Charitable Distribution**, specify the amount, and identify the qualified charity.

If you wish to name St. Mark's United Methodist Church as the qualified charity and recipient of the QCD, information is provided below. You may also request your IRA Trustee/Custodian include your designated purpose for the gift on the QCD check in the "Memo" field, such as Capital Campaign, Stewardship, etc. In preparing your QCD, the IRA Trustee/Custodian may request the following information:

St. Mark's United Methodist Church
1431 W. Magee Road, Tucson (Pima County), Arizona 85704-2116
Telephone: 520/297-2062, email: info@umcstmarks.org

For assistance contact: St. Mark's Bookkeeper, Ruth Kester, at 520/297-2062

St. Mark's United Methodist Church was granted not-for-profit/charitable organization status under Section 501(c) (3) of the Internal Revenue Code. As a qualified tax-exempt organization under IRS rules, it meets the criteria to receive a qualified charitable distribution (QCD). FEI Number: 86-0264983

- B. Request the IRA Trustee/Custodian **issue a check payable to the qualified charity, and send the check directly to the charity.** (Note: If the check is made payable to you and sent to you by mistake, it cannot be considered a QCD nor receive tax benefits. Further, if the RMD is payable and accepted by you, there is no way to roll it back into an IRA for use as a QCD. It will be counted as taxable income.)

- C. Retain the QCD documentation provided by the charity detailing the gift and amount donated as part of your RMD obligation.
 - 1. Provide this documentation to your tax preparer to ensure the amount is excluded from taxable income, and
 - 2. Retain documentation on the QCD to substantiate the transaction as part of RMD fulfillment for the specific year, and in the event of a future IRS audit.

- D. If the 1099-R form does not include provision for specific reporting of the QCD, and there continues to be no requirement for the IRA Trustee/Custodian to report QCDs, **it's crucial that you inform your tax preparer that the RMD includes QCD(s). Providing your tax preparer with supporting QCD documentation will assist in it being reflected accurately within your taxes.** Otherwise, QCD(s) not adequately reported to the tax preparer as part of your annual RMDs will likely be shown as fully taxable, included in adjusted gross income, and increase your tax liability.

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