

Year-End Charitable Contributions: A possible better way?

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Whatever cause you value most deeply, changes to the tax code in 2020 may limit the tax deductions you can take for charitable donations. However, another way to lower your tax bill is qualified charitable distributions (QCDs). A QCD is a nontaxable distribution from your IRA that is paid directly to a qualified charity of your choice. You do not receive a tax deduction for the gift, BUT the transfer from your IRA is NOT counted as taxable income.

A qualified charitable distribution (QCD) can offer a number of benefits, including:

- **Tax benefits:** QCDs are tax-free and can help lower your overall tax liability. The amount donated is excluded from your taxable income, so you don't need to itemize it on your tax return.
- **Satisfy RMDs:** For those who are at least 73 years old, QCDs can count toward their required minimum distribution (RMD) for the year. This allows them to give to charity without increasing their taxable income.
- **Reduce Medicare premiums:** QCDs can help reduce your modified adjusted gross income (MAGI) for Medicare purposes. This could help you avoid higher Medicare premiums.
- **Offset other taxes:** QCDs can help offset other taxes, such as those on Social Security benefits.
- **Avoid higher income tax brackets:** QCDs can help you avoid being pushed into higher income tax brackets.
- **Prevent phaseouts of other tax deductions:** QCDs can help prevent phaseouts of other tax deductions.



For those 73 and older and taking required minimum distributions (RMDs) from your tax-deferred retirement accounts, QCDs provide an additional benefit. You can use a QCD to offset the impact of RMDs on your taxable income. How does it work? When you gift your RMD withdrawal amount to a charitable organization via a QCD, you lower your taxable income by the total amount of the gift.

When making a QCD, there are some requirements to be aware of:

- You can only make a QCD through tax-deferred retirement accounts like a traditional IRA or inactive SEP IRAs and SIMPLE IRAs. Roth IRAs and 401(k)s do not qualify.
- You must be at least 70 ½ years old on the date of the transfer to qualify.
- Up to \$100,000 in QCDs can be used to satisfy RMD requirements. Note that the max limit is per person rather than per IRA account.
- You cannot use a QCD for donations to donor-advised funds or private foundations.
- Timing matters. A QCD cannot offset income from an RMD already taken, so consider initiating a QCD earlier in the year. You can plan for next year.
- No gifts or other benefits are allowed in exchange for your donation.
- **Funds must be transferred from your IRA to the charity before December 31 or your RMD deadline.**

Connect with us before the end of the year to better understand how a QCD can lower your taxable income. We can discuss the requirements and determine the best strategy for helping you give generously to others—while also giving generously to yourself through tax savings.

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