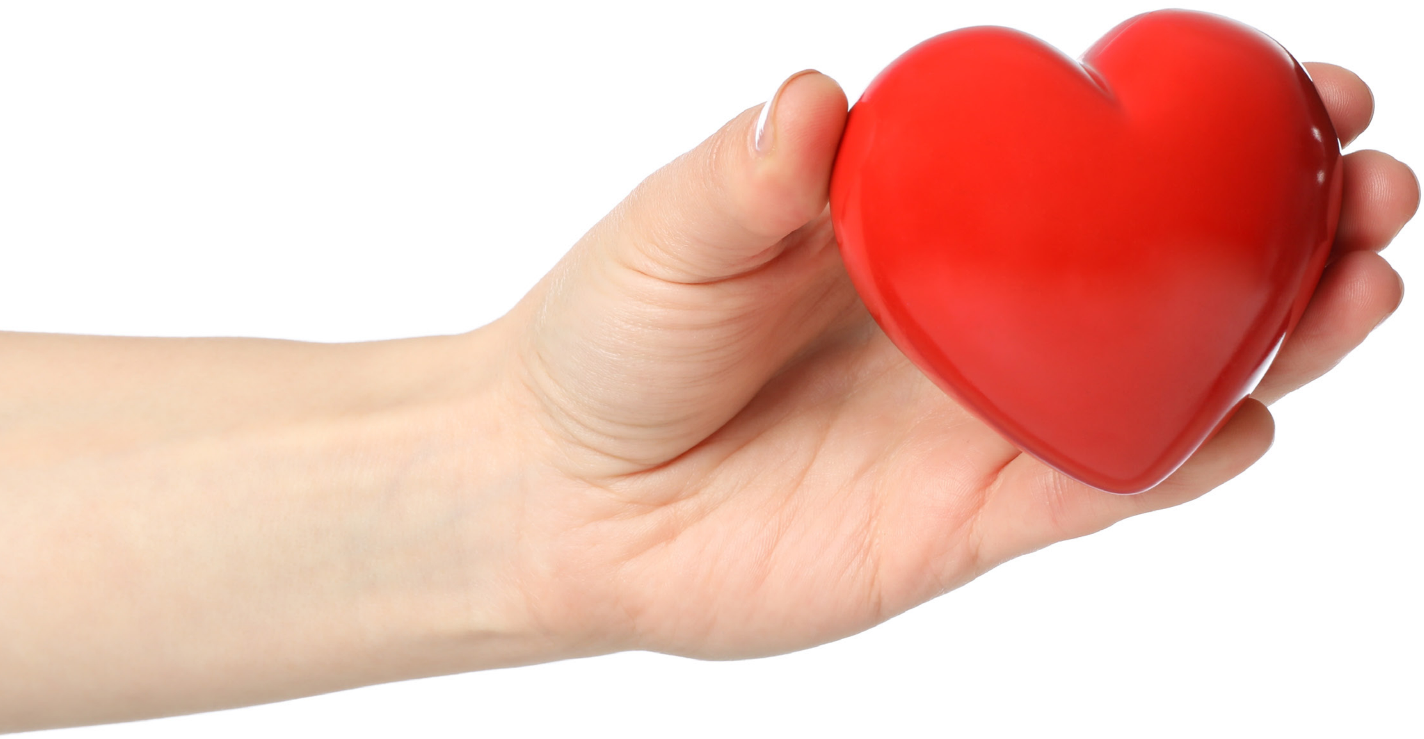
Your Firm LLC

Maximizing Tax Benefits Using Qualified Charitable Distributions



Many Americans donate to charity but fail to realize all of the tax benefits associated with charitable donations. For the majority of taxpayers, the standard deduction, which is $25,100 for married filing jointly, exceeds the value of itemizing deductions. Thus, the standard deduction typically does not credit taxpayers for their charitable contributions. They get the same deduction regardless of how much they donate.

Fortunately, there are ways savvy taxpayers can maximize the value of their donations while simultaneously reducing taxable income. By taking advantage of qualified charitable distributions, taxpayers can:

- Reap the tax benefits of a charitable donation,
- Preserve their ability to claim the standard deduction,
- Support qualifying 501(c)(3) organizations of their choice,
- Reduce their taxable income, and
- Offset required minimum distributions on their traditional IRA.

This document explains how to use qualified charitable distributions, known as QCDs, from a traditional IRA to reduce taxable income and achieve philanthropic goals. We'll also provide examples to illustrate the potential tax savings one can achieve with a QCD.

How Do I Maximize Tax Benefits for Charitable Deductions?

Many taxpayers contribute to qualified charities but still end up taking the standard deduction, essentially getting the same tax treatment as if they never made the donation. But there is one way to reap the tax benefits of a charitable donation while still claiming the standard deduction - by making a Qualified Charitable Distribution from a traditional IRA.

In order to take advantage of the QCD, the taxpayer must have an IRA and be at least 70 ½ years of age. The donation must be distributed directly from the IRA to a qualified 501(c)(3) organization. If you withdraw IRA funds, place them in your personal bank account, and then donate funds to charity, you will not be able to claim the tax advantages associated with a direct distribution.

Single taxpayers can contribute up to $100,000 in QCDs each year and married taxpayers can contribute a combined total of $200,000 from their respective IRAs. While the distribution must be reported on the taxpayer's Form 1040, it is not taxable.

IRA Required Minimum Distributions

Traditional IRA holders who are over the age of 72 must make a taxable required minimum distribution, known as an RMD, each year. The good news is that charitable distributions can count toward the RMD, thus reducing taxable income. This might be easier to understand with an example.

Let's say you are required to make a minimum distribution of $50,000 for 2021. Normally, you would take a $50,000 distribution, which you would then have to report as income on your tax return. However, if you made a qualified charitable distribution of $50,000 from your IRA, you would not need to take the minimum distribution or recognize it as taxable income.

It is important to note that an RMD that exceeds your QCD will still count as taxable income. For instance, if you need to take a $50,000 RMD and make a $25,000 charitable distribution, you will still need to report the $25,000 difference as taxable income.

Next Steps

It is important to work closely with your accountant as well as your IRA custodian to ensure your charitable distributions comply with tax laws. Please feel free to contact our office for any questions or assistance with qualified charitable distributions.

About Your Firm LLC

We have hand-picked a team with tax, auditing, accounting, business and management advisory expertise in a multitude of fields, including healthcare, professional-services firms, commercial contractors, home builders, real estate companies, manufacturing and distribution companies, dealerships, non-profit organizations and pension funds.

We have the expertise and the resources to provide not only the critical services you need during these evolving economic times, but also, importantly, to build for the future. Our strategic alliances with professional organizations across the country allow us to bring our clients the talent and expertise of national firms with the high-touch service of a local firm. While we remain focused on the core services of tax, accounting and audit, we expand and offer you the business consulting needed to remain competitive. We believe the success of our clients is the greatest measure of our own.

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