

## *Using Your IRA for Charity, Courtesy of the Tax Bill of 2015*

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Congress passed a bevy of tax rules at the last minute in 2015, including a provision that made the IRA Charitable Transfer or Rollover tax break permanent. This popular tax break (which is also called a Qualified Charitable Distribution, or QCD) allows the owner of an IRA account to transfer up to \$100,000 per year directly to charity. While you can't take a tax deduction for the donation, you do escape paying income tax on the withdrawal. Since the income tax burden from a draw may be greater than the tax offset you would receive from a tax deduction, this can be a significant benefit.

Of course, as with all tax breaks, rules and caveats apply. Here are a few:

- You must be age 70 ½ or older in order to make an IRA Charitable Rollover. The rollover does stand in for your required minimum distribution, so if you are forced to take RMDs from a large IRA that you really have little use for, using the funds to roll to charity could be an ideal tactic.
- The transfer can be made from a traditional IRA. If you want to use a different retirement plan, you will have to roll funds into a traditional IRA first. Roth IRAs may be eligible, but the use of these accounts is questionable, since most Roth distributions are tax exempt anyway.
- You cannot make the transfer to private donor funds, foundations, or certain other charitable destinations. Only transfers directly to a charity will qualify.
- While you will not owe federal tax on the rollover, you may owe state tax. Only some states recognize the transfer as a tax exempt transaction.
- Likewise, it's best to have your tax advisor help you figure out if the QCD makes sense for you given your federal tax situation. Not all taxpayers will benefit.
- You cannot receive any benefits from the designated charity in return for your contribution.
- Both spouses can make a contribution of up to \$100,000 each, per year, from their own IRAs.
- The QCD will work even if you have named a charity as a beneficiary on your IRA. Of course, if you have named one charity and give to another, it's a bit like robbing Peter to pay Paul.

Please let us know if you have any questions about this technique.

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