GiveTeam

Helping Clients Give More: Retiree Giving From QCDs

How to encourage and support donors aged 70.5 and older develop a charitable strategy using Qualified Charitable Distributions from their IRAs

Many Americans have saved a significant amount of money into 401K and IRA accounts over the course of their careers. Starting at age 72, retirees are required to start taking a **Required Minimum Distribution (RMD)** each year based on their age and the balance in the account as of the end of the prior calendar year. These RMDs are taxed as income, and most importantly, retirees need to take at least that RMD amount each year to avoid a 50% penalty on those funds.

When it comes to charitable giving, many of these same retirees who are age 72 and older are giving away money to nonprofits each year, but usually, the amount of those gifts isn't large enough to get a full income tax deduction.

For instance, the standard deduction for income taxes for a married couple in 2022 is $25,900. If a 75-year-old retired couple has little-to-no earned income, no remaining mortgage (i.e. no deductible interest) on their home, and limited other tax deductions, they are likely taking the $25,900 standard deduction because it's larger than the total they'd be able to document by itemizing their deductions for taxes each year.

This means that a 75-year-old couple would receive no income tax benefit from their charitable gifts each year.

Enter the Qualified Charitable Distribution (QCD) strategy.

Individuals who are 70.5 and older are allowed to make direct transfers from their IRA accounts to nonprofits as the source of their charitable giving in retirement. Individuals can give up to $100K per year to charity via QCDs, and the gifting counts toward satisfying their RMD for the year as well.

Because the QCD is given directly to charity, the retiree never realizes that IRA withdrawal as income, thereby getting a full “above the line” income tax deduction – all without having to itemize and while still taking the full $25,900 standard deduction each year, as well.

For example, let’s say that 75-year-old married couple gives away $20,000 per year to charity, but they don’t itemize deductions on their tax return, because the total deductions fall below the $25,900 standard deduction for 2022. This means their current $20,000 of charitable giving provides no additional income tax benefit.

Let’s say that same couple has a combined $20,000 RMD that needs to be withdrawn from their IRA accounts. If they simply take the withdrawal and they are subject to a 30% hypothetical income tax rate, they’d owe $6,000 in taxes on that RMD.

Instead, if they give that same $20,000 directly to nonprofits via a QCD, they fully meet their RMD requirements and they never end up paying any income tax on that $20,000 distribution from their IRAs.

Talking to clients about their charitable giving strategies, understanding what causes and organizations matter most, and helping clients save significant amounts of income tax each year is a huge win for the clients, the nonprofits, and the financial advisors. QCDs represent one of the easiest ways to add value and spur larger gifts each year with significant income tax savings along the way.

More, better, now.