

### RMDs and QCDs: Tax Advantaged Giving Strategy

The IRS says that we must begin taking distributions from our qualified plans by a certain age. Required minimum distributions (RMDs) must begin no later than April 1 of the year following the year you turn 70 ½ if you were born before July 1, 1949. If you were born after June 30, 1949 and reach age 72 before or on Dec. 31, 2022, you must begin taking your RMDs no later than April 1 of the year following the year you turn 72. If you turn 72 after Dec. 31, 2022, you must begin taking your RMDs no later than April 1 of the year following the year you turn 73. Of course, you may take distributions prior to that date but you must at least take the minimum once you reach the prescribed age.

Distributions must be taken from all tax-deferred plans that you own. You may choose where to take the distributions from within each sub-category of plans. Example:

John has an IRA at a brokerage firm plus an IRA annuity. The RMD for the IRA at the brokerage firm is \$2,000 and the RMD for the IRA annuity is \$500. John can take his \$2,500 IRA RMD all from the brokerage firm IRA. He also has an RMD from a 403(b) annuity of \$1,000 that can NOT be taken from the IRA but must be taken from the 403(b) annuity.

If you are charitably inclined, one of the best ways to fulfill your RMD requirement is to donate some (or all) of your RMD directly to a qualified charity (or charities). This is referred to as a Qualified Charitable Donation (QCD). If you follow this strategy, your RMD will not be taxable. Of course, you aren't able to deduct the charitable contribution either but normally you will arrive at a better tax result if you don't have to include the RMD in your adjusted gross income (AGI) in the first place.

If your RMD is included in your AGI, it may affect other parts of your tax return. For example, the taxable portion of your social security is dependent on your AGI. If your AGI is less, it is possible that less of your social security would be taxable. Another common example is if you are itemizing your deductions and are able to take your medical expenses. The amount of your medical deduction is reduced by 7.5% of your AGI in order to determine what is deductible. If your AGI is less, more of your medical expenses will count.

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There are specific rules to follow if you'd like to take advantage of the QCD strategy.

- This can only be done with IRA RMDs – if you have an RMD from a 403(b) or 401(k), you must take those directly and pay tax on them.
- The IRA custodian must send the contribution directly to the charity – it can NOT go through you first. Some IRA custodians will give you a “checkbook” that you can use to write checks to a charity directly from your IRA but in most cases, you'll have to request the custodian send a check to the charity directly.
- QCDs are limited to \$100,000 per year.

If you do make QCDs from your RMD you must be sure to tell us about it. The 1099-R from the IRA custodian does NOT indicate that any of your distribution went to a charity so the only way we know that you did a QCD is if you tell us. We also need the acknowledgement from the charity that indicates the contribution came from an IRA.

As always, contact us with any questions you have regarding this tax saving strategy.