

The Giving Life

Title: A Guide to Charitable Giving Through Your Retirement Accounts
Subject: Understanding Qualified Charitable Distribution (QCD) and how to make charitable gifts from IRAs

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A photograph of an older man with dark hair, wearing a dark jacket, sitting on a concrete ledge and looking out over a large body of water. In the background, there are mountains under a clear sky. The lighting is soft, suggesting early morning or late afternoon. The text is overlaid on the lower left portion of the image.

A Guide to Charitable Giving Through Your Retirement Accounts

More than 35 trillion dollars! That is the approximate amount Americans have in retirement accounts—IRAs, 401(k)s, 403(b)s, and other qualified plans.

Since you are reading this guide, you likely have a retirement account of your own. Perhaps you created an IRA many years ago, or have participated in a 401(k), 403(b), or another work-related retirement plan through your employer. Assets transferred to these accounts before tax, which have grown in value, are tax-deferred but will be taxed as ordinary income upon withdrawal.

Have you considered your options for taking withdrawals from your retirement accounts? Will you need the required minimum distributions? Will they just create additional tax? What happens if the retirement accounts are a part of your estate at the time of death?

Required Distributions

IRS rules do not allow indefinite deferral of income from tax-deferred retirement accounts. If you were born in 1950 or before, rules mandate that you annually receive a **required minimum distribution**, or RMD, beginning at age 72. Individuals born from 1951 through 1959 can defer withdrawals until age 73, and those born in 1960 or after may defer to age 75.

Your RMD is calculated by government tables based upon your life expectancy and is reported to you as ordinary income. You can take your withdrawal in a single payment or in multiple payments throughout the year—so long as the total minimum amount is distributed within the calendar year.

If you fail to take your required distribution—or any part of it—you are subject to an additional tax equal to 50% of the undistributed required minimum distribution.

Are there options for using retirement assets and income I do not need?

Yes, there are options. There are even options that could help the ministries you love and likely improve your bottom line at tax time.

Qualified Charitable Distribution

After reaching the age of 70 1/2, you can make a direct-to-charity transfer from an IRA. This is known as a **Qualified Charitable Distribution** (QCD). In 2024, you can increase your generosity and eliminate the tax implications up to \$105,000 per year. The QCD must be made directly to ministry. It is not included in your taxable income and is not subject to deduction limitations on other charitable gifts you make.

A Qualified Charitable Distribution can only be made from an IRA. If your retirement funds are in a 401(k) or 403(b) plan, it is necessary to rollover the funds to an IRA to take advantage of the benefits of the QCD. The QCD applies to most traditional, inherited and rollover IRAs—check with your fund manager to confirm the eligibility of your account.

Reducing Taxes on Your Retirement Account Assets

When you established your retirement account—whether a traditional IRA or another qualified plan—you named a beneficiary. Were you aware that tax-deferred retirement assets distributed to your estate or to named personal beneficiaries at the time of death will still be subject to ordinary income tax? This tax is called Income in Respect of a Decedent, or IRD tax.

As with many taxes, there are options to reduce or avoid this IRD tax.

Naming a Charitable Beneficiary

One option is to designate a ministry as the beneficiary of your retirement account. You can take withdrawals from the account during your lifetime and then distribute the remaining assets to a ministry via beneficiary arrangement at your death. Since the ministry is not subject to tax, no income tax will be paid on the remaining retirement assets, and other assets that might have been used to fund your desired charitable gifts can be distributed to personal beneficiaries tax-free.

Give it Away Twice

If you wish to provide income from your retirement account for your family, it can be transferred to a charitable remainder trust as part of your estate plan. After providing the desired income for your family, the remainder of the trust will be distributed to one or more ministries.

Through this special charitable strategy, you can give your retirement assets away twice—once to family (as income) and a second time to a ministry.

What Are The Advantages of Giving From Retirement Funds?

When retirement funds have been invested before tax, they are subject to income tax when withdrawn—whether during your lifetime or through your estate at death. However if these assets are used to for charitable gifts, the tax can be reduced or avoided.

You can receive a charitable deduction for cash gifts up to 60% of adjusted gross income. A retirement distribution taken this year will be subject to income tax. However if you do not need the distribution for living expenses, you can gift some (or all) of it to

Reducing Taxes on Your Retirement Account Assets (cont.)

ministry, reducing or eliminating the tax otherwise payable.

If you are over the age of 70 1/2 and have a qualified IRA, in 2024 you can direct your IRA manager to make a Qualified Charitable Distribution (QCD) of up to \$105,000 from your retirement account directly to charity. Since you do not receive the distribution, you do not report it as income, nor do you receive a charitable deduction. The QCD can be used to meet your required minimum distributions if you do not need the income this year.

When considering the distribution of your estate, it may be more beneficial to gift assets subject to income tax to your chosen ministries, who are not subject to tax, using other non-tax bearing assets to make gifts to personal beneficiaries.

How to Donate to Ministry From Your Retirement Accounts

To take advantage of the Qualified Charitable Distribution from your IRA, it is important to contact your IRA account manager prior to your required minimum distribution deadline. Your account manager will guide you through the process.

Upon completion of the QCD request, your gift will be made directly from your IRA account to your chosen ministry(ies). If your QCD does not fulfill your required minimum distribution for the year, you will receive the remaining distribution from your IRA. Only the amount distributed directly to you will be included in your taxable income for the year.

If your retirement account is not an IRA, you may be able to roll it to an IRA, allowing you to take advantage of future Qualified Charitable Distributions.

Through Your Estate

If you wish to make charitable gifts from your retirement funds when you no longer need them, contact your account manager to name the ministries you choose as beneficiaries of the funds. Beneficiary distributions are made outside of the probate process and other terms of your will or trust.

If your charitable gifts are expressed as a percentage of your total estate, your will or trust documents may instruct your trustee or personal representative to use funds which would be subject to tax (i.e., tax-deferred retirement accounts) to fulfill your charitable distributions. This plan provides the greatest benefit—reducing or eliminating the tax payable by your estate or your personal beneficiaries.

Your Charitable Legacy

If you desire to support a ministry and have tax-deferred retirement assets, you may be able to increase your generosity by reducing the tax impact on these assets. Our experienced staff is available to answer your questions or help you plan your gift. There is no cost or obligation to you—how may we help?

Frequently Asked Questions

Q: Can I gift the income I receive from my retirement account to a charity and avoid paying income tax on the distribution?

A: When retirement funds are distributed to you, your account custodian will report them as income on Form 1099-R. You could then gift the same amount to a charity, and if you itemize when filing your taxes, the charitable tax deduction helps offset the income.

Q: Can I write a check to a charity equal to the amount I received as my required minimum distribution and claim it as a Qualified Charitable Distribution, or does the gift have to be made directly from my account to charity?

A: The Qualified Charitable Distribution must be a direct transfer from your account custodian to a charity. If you receive the distribution, you must report it as income and then validate your gift to claim an income tax charitable deduction.

Q: If I make a gift to a charity from my IRA that is greater than my required minimum distribution this year, can I apply the excess to next year's required minimum distribution?

A: No. All distributions from your IRA must be applied to the current year. Next year's required minimum distribution will be recalculated based upon the account principal.

Q: Can I name a charity as the beneficiary of my retirement account at my death?

A: Yes. Check with your plan administrator for the proper paperwork to complete your beneficiary designation.

Q: If I request a Qualified Charitable Distribution of a portion of my required minimum distribution, will it be reflected on the Form 1099-R I receive from my IRA custodian?

A: If your account is a non-inherited IRA, your Qualified Charitable Distribution will be reported

Frequently Asked Questions (cont.)

as a normal distribution. Your charitable portion will be deducted from the taxable amount of the IRA distribution when you file your tax return.

Q: Can an inherited IRA be gifted to a charity?

A: If you are the spouse of the deceased IRA owner or have reached the age of 70 1/2, you can make a gift from an inherited IRA as if it was from a traditional IRA.

Q: Is a Qualified Charitable Distribution from my IRA tax deductible?

A: No. However you do not have to claim the distribution as taxable income. The net result may be the same as if you received a charitable deduction.