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How Older Taxpayers Can Gain A Tax Benefit From Charitable Contributions Even If They Can't Itemize

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It's been estimated that the number of people who itemize will fall by more than half in 2018 because of changes made by the Tax Cuts and Jobs Act. That's bad news for many charitable givers, but those who are age 70½ or older can continue to gain a tax benefit from their charitable contributions even if they don't itemize. The key is to make the gift by way of a qualified charitable distribution (QCD).

Charitable contributions may still be claimed as an itemized deduction, but the TCJA restricted itemized deductions for state and local income and property tax, tinkered with the deduction for residence interest (by reducing the dollar limit on acquisition debt and eliminating the deduction for interest on home equity debt), and did away with miscellaneous itemized deductions. It also nearly doubled the standard deduction. The net result is that charitable contributions won't yield any tax benefit for the many millions more Americans who will no longer itemize their deductions.

But the TCJA didn't touch one way for older individuals, specifically, those who are age 70½ or older and are receiving required minimum distributions (RMDs) from IRAs, to come out ahead tax-wise when they make a charitable contribution. The key is to make annual contributions by way of qualified charitable distribution from their IRAs, and to reduce RMDs by a commensurate amount.

Required minimum distributions. Taxpayers must start taking annual RMDs from their traditional IRAs by April 1 following the year in which they attain age 70½. Failure to withdraw the annual RMD could expose the taxpayer to a penalty tax equal to 50% of the excess of the amount that should have been withdrawn over the amount actually withdrawn. The first distribution year is the year in which the IRA owner attains age 70½, but that first distribution may be postponed until the second distribution year.

The amount of each RMD is calculated separately for each IRA. However, the RMD amounts for the separate IRAs may be totaled and the aggregated RMD amount may be paid out from any one or more of the IRA accounts. Each year's RMD is determined by a table percentage that varies with the taxpayer's age and is applied against his or her total IRA balance at the end of the preceding year.

Qualified charitable distributions. An annual exclusion from gross income (not to exceed $100,000) is available for otherwise taxable IRA distributions that are QCDs. Such distributions aren't included in gross income, can't be claimed as a deduction on the taxpayer's return, and aren't subject to the general percentage limitations that apply for making charitable contributions. A qualified charitable distribution is one that is made

1. On or after the IRA owner attained age 70½ and
2. Directly by the IRA trustee to a charitable organization or a donor advised fund.

Recommendation. Using qualified charitable distributions, instead of making charitable gifts from other sources-can result in meaningful tax savings for charitable, minded older taxpayers who are receiving RMDs and will not itemize their deductions.

Please contact us if you have any questions.

Contact Us With Questions
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