RAYMOND JAMES



Tax Planning with Qualified Charitable Distributions

Understand how to benefit from this tax-saving tool

GIVING WITH GREATER BENEFITS

Are you age 70 1/2 or higher and subject to required minimum distributions (RMDs) from your IRA? Do you have charitable intentions for the required distribution? Consider the use of a qualified charitable distribution (QCD).

Although qualified charitable distribution has been around for nearly a decade, it was not made permanent until 2015 when Congress passed the Protecting Americans from Tax Hikes (PATH) Act. This means an IRA owner subject to RMD can donate up to $100,000 directly from an IRA to a charity without getting taxed on the distribution.

Donating IRA funds directly to qualified charities allows the IRA holder or beneficiary to avoid taking possession of the funds and the tax bill that comes with it. Another benefit of the RMD payment applied to the QCD is that the amount is excluded from tax formulas that could impact potential Medicare Part B premium increases.(3)

IMPORTANT FACTORS

- *A QCD is available to an inherited IRA owner if the owner is at least age 70½.*
- *With QCDs, the variety of eligible charitable entities is limited to primarily public charities.*
- *A QCD can be used to meet your required minimum distribution.*
- *Your $100,000 contribution limit can include amounts in excess of the RMD payment, however the total annual amount cannot exceed $100,000 per person.*
- *While a QCD can be done from a Roth IRA, this generally isn't advisable given that most distributions at age 70½ or older will not be taxed anyway.*
- *If an RMD payment has already been made for the year, it's considered an irrevocable taxable distribution that can't be reclassified or reapplied as a QCD.*
- *A QCD is not available to active SEP or SIMPLE IRAs – accounts still receiving ongoing employer contributions.*
- *The QCD avoids the pro-rata rule. With a QCD, your taxable distributions are distributed first. Normally, if you have made after-tax contributions to one or more IRAs, the pro-rata rule applies (meaning part of the distribution is taxable and part non-taxable).*

HOW IT WORKS

The QCD must be paid directly to the charity which must be a qualified 501(c)(3) institution eligible to receive tax-deductible contributions, like many public charities. A QCD cannot be made to a private foundation, donor-advised fund or supporting organization (as described in IRC 509(a)(3)), nor to a charitable gift annuity or a charitable remainder trust (CRT).

A qualified charitable distribution doesn't offer a split-interest opportunity, such as with charitable remainder trusts where donors receive part deduction and part income from the asset. In that regard, the QCD distribution must have been eligible for a full deduction, not partial. This rule assures that the IRA owner doesn't get a kick-back or other "quid pro quo" benefit for the donation – preventing any "split-interest charitable trust," such as a CRT, from being an eligible QCD beneficiary.

The charitable entity, as the recipient of the QCD, must receive the donation by Dec. 31. in order to ensure credit to the proper year.

COMPARING THE BENEFITS OF QCD AND NON-QCD STRATEGIES

For some individuals, it may make sense to use a mix of a gifting strategy that incorporates traditional (non-QCD) gifting in addition to the QCD.

STRATEGY 1: QUALIFIED CHARITABLE DISTRIBUTIONS (QCD)

With the amount paid excluded from income taxes, the QCD transfers directly from the IRA to the designated charity and the QCD amount avoids being added as taxable income on your tax return. For those in a high tax bracket, the QCD is a useful way of removing an otherwise taxable RMD payment from being added as income on your tax return.

Unlike other forms of charitable giving that require you to itemize the gift in order to deduct the contribution on your tax return, the QCD does not have to be itemized. Consequently, you can claim both the standard deduction[1] , or itemize, and still exclude up to $100,000 from the income associated an IRA distribution.

[1]Tax Year 2018
Standard Deduction

Filing Status	Standard Deduction
Single	$12,000
Head of Household	$18,000
Married Filing Separately	$12,000
Married Filing Jointly	$24,000

[3]2017 Medicare Part B premiums based on income

(as reported on your tax return two years ago)

Your Annual Income		2018 Premium Amount
Individual Tax Return	Joint Tax Return	You Pay
$85,000 or less	$170,000 or less	$134.00
$85,001 up to $107,000	$170,001 up to $214,000	$187.50
$107,001 up to $133,500	$214,001 up to $267,000	$267.90
$133,501 up to $160,000	$267,001 up to $320,000	$348.30
$160,001+	$320,001+	$428.60

STRATEGY 2: TRADITIONAL (NON-QCD) CHARITABLE CONTRIBUTIONS

When using a typical charitable contribution, in order to claim the charitable deduction, you must elect to itemize donations on schedule A of your tax return. You should consider itemizing if the total amount of your itemized deductions is more than your standard deduction amount.

With this form of charitable giving, you can only deduct up to 50% of your adjusted gross income for charitable contributions (60% for cash donations), and that figure may be as low as 20% or 30%, depending upon the type of property you donate and the organization that you give it to. If your contributions exceed this income percentage, then the percent of income ceiling could curtail your ability to deduct the contribution. However, you are allowed to carry forward the unused charitable deductions for up to five years. If the unused carry-forward amount is not claimed during the five years, it expires.

Given that the RMD payment is taxable and increases your adjusted gross income, it can potentially impact taxation of Social Security benefits (for low income earners) and potentially increase premiums associated with Medicare Part B and D premiums (for high income earners).

One benefit of electing to itemize charitable contributions is that you have a larger universe of charitable entities to choose from. A second benefit is that other giving methods are available. For instance, contributions to donor-advised funds, split-interest trusts such as a charitable remainder trust and contributions to most forms of private foundations.

[2]Taxation of Social Security

No one pays federal income tax on more than 85% of his or her Social Security benefits based on Internal Revenue Service (IRS) rules. If you:

- file a federal tax return as an "individual" and your combined income* is
  - between $25,000 and $34,000, you may have to pay income tax on up to 50% of your benefits.
  - more than $34,000, up to 85% of your benefits may be taxable.
- file a joint return, and you and your spouse have a combined income* that is
  - between $32,000 and $44,000, you may have to pay income tax on up to 50% of your benefits.
  - more than $44,000, up to 85% of your benefits may be taxable.
- are married and file a separate tax return, you probably will pay taxes on your benefits.

*Note:

Your adjusted gross income
+ Nontaxable interest
+ ½ of your Social Security benefits
= Your "combined income"

How to file taxes with a QCD

Your 1099-R form will show the distributed amount for the calendar year when your withdrawal is made with no code indicating a QCD. Therefore, when filing:

- List the QCD amount on the 1040 tax form on the line designated for IRA distributions.
- On the line for the taxable amount, enter zero if the full amount was a qualified charitable distribution.
- Enter "QCD" next to this line. See the Form 1040 instructions for additional information.

WHEN IS A QCD NOT THE BEST OPTION FOR YOU?

- Gifting highly appreciated stock in a non-retirement account has a dual benefit that the QCD does not have. It removes the gain from taxation and also provides the ability to claim a tax deduction against your income. The QCD just removes the RMD amount from taxation.
- In situations where the contribution will be made by cash or check, the QCD will come out with equal benefit. The QCD may be an effective means of reducing the tax impact of RMD payments, however using appreciated securities is still the best option from a tax perspective.
- Also, if you are not in the best of health, and your intent is to pass the stock to a family member, it would be wise to simply allow your beneficiary to inherit the highly appreciated asset at death in order to take advantage of the step-up to the date of death value.

WHEN A QCD MAY BE MORE BENEFICIAL THAN DONATING APPRECIATED STOCK

- In instances where the amount of your charitable contributions is at such a high level – relative to your income – the charitable deduction cannot be claimed, even with the utilization of the five-year carry-forwards. Also, if it is unlikely that the carry-forward amount will be used during the five-year period, it will expire.
- If your itemized deductions don't reach the level where they exceed your standard deduction, then the benefits of itemizing charitable deductions are of little use. You can either claim the standard deduction or go with itemizing – but you can't do both. Keep in mind that QCD is available regardless of whether you itemize or choose the standard deduction. If your donation of appreciated securities doesn't rise to the level where it exceeds the standard deduction threshold, then the value of this method of giving is limited. For instance, with the standard deduction for a married couple in 2017 set at $12,700, if you donate $15,000 of appreciated securities, the charitable deduction of $15,000 exceeds the standard deduction by only $2,300 (with itemization). The reality is that this itemizing

strategy only produces a charitable deduction that is $2,300 larger than just claiming the standard deduction. If you are considering donating appreciated securities, it's best used when you have enough deductions (such as interest on mortgage) to itemize before including the highly appreciated stock as a charitable contribution.

- If your highly appreciated stock held within an IRA, then any withdrawal will be taxed as ordinary income anyway, with no opportunity for capital gain treatment.

NEXT STEPS

Since each individual's situation is unique, it's important to seek guidance to explore if this tax-planning tool is right for you to maximize your tax savings. Begin the process by meeting with your financial advisor to take a comprehensive look at your situation in the context of your overall financial plan. If you have considered donating all or part of your IRA required minimum distribution payment to charity, then take action before year-end.

WORK WITH YOUR FINANCIAL ADVISOR

Your financial advisor has the tools, resources and expertise to help you understand if this tax planning tool may be right for you.

- Assess the potential impact of QCDs on your overall financial plan.
- Evaluate key decision factors and understand how they may benefit you.
- Implement your specific plan to maximize your benefits from giving.

Please note that changes in tax laws or regulations may occur at any time and could substantially impact your situation. Raymond James financial advisors do not render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

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