Donating IRA assets to charity

Provision offers a tax break for retirees

How it works

The provision allows retirees age 70½ and older to donate up to $100,000 tax free from their IRA each year. Generally, when you take a distribution from your IRA, it is treated as taxable income. Under this provision, made permanent in the 2015 federal spending and tax package, those assets are excluded from income if the distribution is made directly to charity.

The distribution is not included in your income so you avoid the potential negative consequences that regular IRA withdrawals in retirement can create, including taxes on Social Security benefits. Distributions excluded from income are also equivalent to a 100% deduction. Normally, charitable contribution deductions are limited to a lower percentage (or are eliminated altogether) for taxpayers who do not itemize and take the standard deduction.

Turn your required distributions into charitable donations

IRS rules mandate that individuals age 70½ and older take RMDs from their IRA each year, regardless of whether the income is needed. These annual withdrawals are subject to ordinary income taxes. By making a charitable contribution from your IRA, you can satisfy your RMD amount without reporting additional income.

This provision may be especially attractive for retirees who don't need all the income from their IRA to meet current living expenses. By donating the money to charity, you can enjoy the satisfaction of knowing that you are contributing to a worthy cause while effectively lowering your tax bill.

Is a charitable contribution from an IRA right for you?

Donating IRA assets can be a financially rewarding strategy for both you and the charity. As always, you should talk with your financial representative or tax advisor before making a decision that alters your tax situation. Following are several examples where it may be appropriate.

- Generally, in order to claim a charitable deduction, you must itemize your tax return. For retirees who no longer pay mortgage interest, the deductions may be too small to itemize. The provision offers the tax benefits of a charitable contribution without your having to itemize your deductions. In addition, recent tax law changes nearly double the standard deduction, which will result in fewer taxpayers itemizing deductions and more opting to claim the standard deduction.
- Charitable deductions are limited by a taxpayer's income — generally up to a maximum of 60% of modified adjusted gross income. By directing your IRA distribution to a charity, you can avoid this restriction.
- If reporting additional income on your Form 1040 increases your Medicare Part B premiums or negatively affects the taxability of your Social Security benefits, then making a charitable contribution from your IRA may be appropriate.
- Some states do not allow residents to deduct a charitable contribution. Making a donation to a charity directly from an IRA may provide a way to effectively claim a state tax deduction. Consult a tax professional for state-specific guidance.

Guidelines for donating IRA distributions to a charity

Eligibility	IRA account owner must be age 70½ or older at time of IRA distribution in order to take advantage of this provision. Rule applies only to Traditional, Rollover, and Roth IRAs; SEPs and SIMPLE IRAs are generally excluded. Distributions of non-deductible IRA contributions also do not qualify.
Annual limit	Maximum amount of a taxpayer's qualified charitable distribution must not exceed $100,000 per tax year and may include required minimum distributions (RMDs).
Qualifications	Distribution must be made to a qualifying charity; private foundations and donor-advised funds are not eligible. Consult a tax professional for additional information.
Direct contribution	The IRA Trustee or custodian must make the distribution directly to the charity. Distributions made payable to the IRA owner and transferred to the charity will not qualify.

Example: Tax savings from donating required IRA distribution to a qualified charity

- Charitably minded retired couple over the age of 70½ with income of $80,000
- Required distributions from IRA totaling $10,000
- Claiming the standard deduction on tax return
- They make annual charitable gifts of $10,000 annually

	Donate RMD to charity	Write a check to charity
Income	$80,000	$80,000
RMD	$0	$10,000
Total income	$80,000	$90,000
Standard deduction	($26,600)	($26,600)
Taxable income	$53,400	$63,400
Tax bill	**$6,027**	**$7,227**

Tax savings of $1,200

Talk to your financial representative

It's important to consider your tax situation before deciding whether to make a charitable contribution from your IRA. Be sure to work closely with your financial representative to determine whether this tax provision is right for you.

This information is not meant as tax or legal advice. Tax laws are complex and subject to change. Please consult a professional tax advisor to determine how this tax law affects your situation.

For more information on eligible charitable organizations, you can reference Publication 78 at www.IRS.gov.

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