HAYES ADVISORY GROUP

RETIREMENT PLANNING

Knowledge is Power

June 2023 Question Of The Month?

"Hi Brian. I am 80 years old and took a $10,000 distribution from my IRA last year. When I did this, I asked my IRA custodian to send $5,000 to my church as a tax-free qualified charitable distribution and to send me a check for the remaining $5,000. I just received my 1099-R from my IRA custodian for this transaction, and it shows total distributions of $10,000. How do I report the $5,000 I sent to the charity so that money isn't included in my adjusted gross income? Thank you." Tom

Hi, Tom. Thank you for sending in your question. Actually, this is a very popular one at this time of the year because many people do qualified charitable distributions (QCDs) from their taxable IRA accounts to save tax dollars. However, in order to save tax dollars, you have to know how to handle these QCDs properly.

QCDs are a special provision in the Internal Revenue Code that allow individuals, age 70½ and older, to give up to $100,000 annually to a qualified charity directly from an IRA. The benefit of the QCD is that it allows the individual to distribute the money to the charity without having to claim that money out of the taxable IRA as income, and it can satisfy some or all of an individual's required minimum distribution for the year. So, for people donating money to charity, doing it via a QCD is a tremendous tax-savings tool because it is an 'above the line' deduction which goes on top of your 'standard deduction'.

In order for a QCD to work, the donation to a charity cannot come from an individual. The donation has to be sent to a charity directly from your IRA custodian. An individual can do as many QCDs as they wish each year, up to $100,000 total, however, again, it must be sent directly to a charity from your IRA custodian.

Now, the reporting each year for QCDs is tricky. The IRA custodian has to report any distribution, including QCDs on a 1099-R tax form. So, in order for a QCD not to be included in taxable income, you must label your tax return properly. In your case, you would report the total distribution of $10,000 on line 4a. Then, report $5,000 on line 4b and enter "QCD" to indicate that $5,000 is a qualified charitable distribution, which is not taxable. You then would want to keep an acknowledgement from the charity in your tax records showing that it received your contribution. If you hire someone to do your tax return, you need to inform them of the QCDs that you did so they can implement them properly in your tax return.

Again, qualified charitable distributions from an IRA can be an extremely effective way to save tax dollars, which is why they are currently one of the most beneficial tools in the Internal Revenue Code. However, in order for them to work, proper procedures and reporting must be followed. We highly recommend working with a CPA or tax accountant and your retirement planning professional to help you do QCDs and to report them on your tax return appropriately.

Join me this weekend on the Retirement Money Matters Radio show where we answer this question in more detail and inform you of the differences between Micro and Macro tax planning. We will also answer many more retirement planning questions that we have received from our readers and listeners over the last few weeks. The show airs on Sunday morning at 8 am on WWKI (100.5 FM), or online at www.theretirementmoneymattersshow.com. You can also obtain this information by reaching out to us at Hayes Advisory Group at 452-PLAN (7526), 800-939-1603 or brian@hayesadvisorygroup.com.