Making Qualified Charitable Distributions (QCDs) and Naming Charitable Beneficiaries

Two Tax-Smart Tips for Using a Traditional IRA to Maximize Your Charitable Impact

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If you are in or near retirement and have been saving money, then you probably know that investing with a traditional Individual Retirement Account (IRA) offers a tax-advantaged way to save money over many years. The key benefits offered by a traditional IRA are two-fold. The first is the ability to invest pre-tax dollars. The second is that you do not pay taxes on your investments until the time you begin taking income distributions—by age 59½, at the earliest.

As a charitably-minded owner of a traditional IRA, you might consider using two tax-smart tips to help you maximize your charitable impact. The first tip is to use IRA income rather than cash to make charitable gifts, as this giving approach may enhance your tax savings while increasing your charitable impact. The second tip is to name a 501(c)(3) public charity—such as a donor-advised fund—as your IRA beneficiary, which may allow you to fund your charitable legacy goals in an efficient way while saving your heirs and estate on taxes.

1 Charitable IRA rollover gifts may enhance your tax savings when compared to cash gifts.

Whether you are fully or partly retired, you may find that your lifestyle is fine as-is and that you don't need additional money from your IRA. However, even if you don't need (or want) the extra funds, at age 72 (it was age 70½ prior to January 1, 2020), the IRS requires you to take IRA withdrawals in statutorily-mandated, annual increments known as "Required Minimum Distributions" (RMDs). What's wrong with that? RMDs are subject to ordinary income taxes and more taxable income may push you into a higher tax bracket, which can lead to adverse impacts, including effects on your Social Security income and Medicare benefits. What's more, if you don't take your RMDs, you could be subject to a 50% penalty on the amount that wasn't withdrawn.

Thankfully, for charitably-minded retirees with traditional IRAs, there is a tax-relief strategy available: the Qualified Charitable Distribution (QCD). The QCD gifting option allows you, starting at age 70½, to instruct your IRA[1] administrator to direct IRA distributions—up to $100,000 per year[2]—to a qualified 501(c)(3) charity.[3] Because the IRA income goes directly to charity, you do not report the QCD as taxable income and do not owe any taxes on the QCD, which may be particularly beneficial to you if you are forced to take RMDs and don't need the extra money. In addition to avoiding taxable income, your IRA distribution can be put to good use by your favorite qualified charity.[4] It's truly a win-win option.

If you regularly support charities, you may find that the QCD gift option provides you with greater tax savings than cash donations. Why? Reducing your Adjusted Gross Income (AGI) generally provides a greater tax benefit than claiming a tax deduction because AGI is used in several calculations, such as determining the taxable portion of your Social Security benefits or what deductions and credits you qualify for receiving. A QCD allows you to receive a tax benefit from your charitable contribution even if you do not itemize your deductions, because the QCD is excluded from your taxable income.

As an example of the potential tax savings of a QCD, consider a hypothetical donor, Bob, who is a single tax-filer with anticipated ordinary income of $80,000 in 2019. Bob is 71 years old in 2019 (which means he falls under the old RMD rules) and takes a distribution from his traditional IRA. In this instance, Bob's IRA is valued at $1,050,000, resulting in a projected RMD of $39,622 ($1,050,000 divided by the IRS mandated age 71 distribution period amount of 26.5). The below illustration compares a cash gift of $39,622 with a QCD for $39,622.

	Cash Gift	QCD Gift
Bob's Adjusted Gross Income—Including vs. Excluding $39,622 RMD Cash Gift scenario includes $80,000 plus $39,622 RMD in income QCD Gift scenario excludes $39,622 RMD from income Both examples assume no Social Security income	$119,622	$80,000
Bob's Charitable Donation Amount Assumes donation is to qualified public charity	$39,622	$39,622
Itemized or Standard Deduction When Filing Income Taxes Cash Gift scenario assumes gift is only itemized deduction QCD Gift scenario assumes 2019 standard deduction amounts: $12,200 plus $1,650 for additional standard deduction	$39,622 itemized deduction	$13,850 standard deduction
Bob's Estimated Federal Taxable Income	$80,000	$66,150
Bob's 2019 Estimated Federal Income Taxes Owed Based on 2019 tax rate/brackets and standard deduction Excludes other federal and state income taxes	$13,464	$10,417
Cash vs. QCD Gift—Estimated Tax Savings		$3,047

Note: This example is for illustrative purposes only.[5]

2 Name a donor-advised fund account or other charity as a traditional IRA beneficiary.

Not all assets that you own (e.g., real estate, brokerage accounts, retirement accounts) are treated the same when passed to your heirs. In fact, a unique feature of traditional IRAs—as well as some other tax-deferred retirement accounts—is that your heirs pay income taxes on the inherited assets at their income tax rate at the time of withdrawal.

This unique tax feature is why public charities can be ideal beneficiaries of traditional IRAs. 501(c)(3) public charities—including donor-advised funds—do not pay income taxes on distributions of these assets, which means every penny of your donation can be directed to support your charitable goals.

What's more, you can ask your advisor about using your tax-deferred retirement assets to fund gifts, such as charitable remainder trusts, that provide income to your heirs. For example, charitable remainder trusts may:

- Provide a steady stream of income for your heirs;
- Enable your estate to claim an estate tax deduction, if needed; and
- Fund your charitable legacy by naming your donor-advised fund account as beneficiary of trust assets.

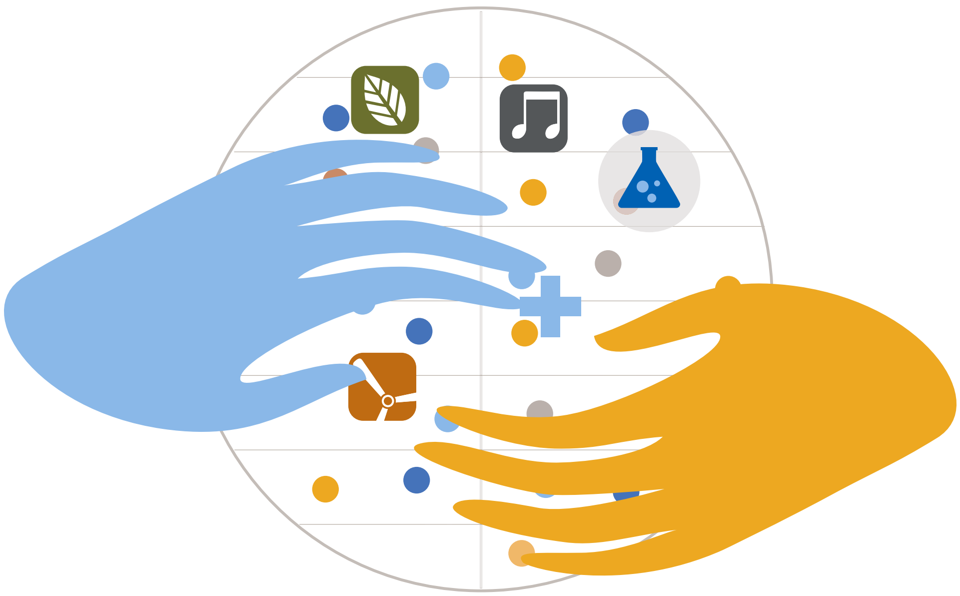
Naming a beneficiary is easy to do and may result in substantial tax savings for your heirs and your estate. Consider naming your favorite qualified charities or donor-advised fund account as beneficiary—or one of multiple beneficiaries—of traditional IRAs, other qualified retirement plans, and life insurance policies.

QCD FAQs

Question	Answer
Can I claim a charitable income tax deduction for my QCD gift?	No. You cannot claim an income tax deduction, but by utilizing the QCD option you can lower your taxable income, which may provide you with greater income tax savings when compared to making a cash gift and claiming an income tax deduction.
Do donor-advised funds qualify to receive QCD gifts?	No. However, you can name a donor-advised fund account or another public charity as the beneficiary of your IRA as part of your estate planning.
Is there a QCD option for my 401(k) account or my other retirement assets?	No. The QCD option is only available for charitable rollovers from traditional IRAs. For other retirement accounts, including 401(k) accounts, you can name a donor-advised fund account or another public charity as a pay-on-death beneficiary as part of your estate planning. You can also roll over assets from a 401(k) account into a traditional IRA and thereafter gift the IRA assets to charity using a QCD.
Can I make a QCD that exceeds my required minimum distribution for the year?	Yes. Keeping in mind that you may roll over up to $100,000 per year to a qualified charity, you may make a QCD in excess of your RMD. However, the excess distribution cannot be carried over to cover required minimum distributions for future years.
Can I spread my QCD among several charities?	Yes. This can be done as long as your QCD is made to qualified charities. Donor-advised funds, for example, do not qualify.
If I directly transfer my QCD to a qualified charity, can my gift be used to purchase courtside seats at a university game, participate in a charity auction, or pay fees for a charity golf tournament?	No. You cannot receive any benefit for making your QCD to a qualified charity. Note, however, that you may be able to use your QCD to fulfill a pledge; please consult with your tax or legal advisor.
Can I name a donor-advised fund as beneficiary of my traditional IRA?	Yes. Although you cannot make QCDs to your donor-advised fund account during your lifetime, you can donate traditional IRA, 401(k), and some other tax-deferred assets to a donor-advised fund account upon death by way of a beneficiary designation.
If I make a QCD, can I also make a charitable gift for which I receive an income tax deduction?	Yes. You may employ multiple giving approaches each tax year. Please note that the QCD may lower your taxable income, which can impact the amount of deductions available to you in a given tax year.
Recent passage of the SECURE Act changed the Required Minimum Distribution (RMD) age to 72 from 70½. Is the QCD gifting option still available for me to utilize starting at age 70½?	SECURE Act passage did not impact the QCD age, which remains at 70½. This means that you can make gifts from your traditional IRA account directly to qualified charities starting at age 70½ without income taxation on the distributions.

WHAT YOU CAN DO NEXT

- Learn about the benefits of a Schwab Charitable donor-advised fund account and open an account.
- Designate your donor-advised fund account as a beneficiary of your traditional IRA.
- Join the Charitable Legacy Program and identify charities to support beyond your lifetime.



Giving is good. Giving wisely is great.

For questions or assistance with philanthropic planning or charitable giving:

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[1] 401(k), 403(b), SEP, or SIMPLE plans do not qualify for the QCD gift option, but assets from these accounts may be rolled over into a traditional IRA and thereafter gifted to charity using a QCD.

[2] If you file your taxes jointly married, then you and your spouse each qualify for an annual QCD of up to $100,000.

[3] As defined in the Internal Revenue Code, donor-advised fund accounts, private foundations, and support organizations are not "qualified" charities for the QCD option.

[4] Note that you can transfer all or part of your RMD as a QCD to a qualified charity.

[5] This article and illustrations herein are intended to be a general overview of some of the considerations and are not to be taken as tax or legal advice. Please consult with your tax or legal advisor.