Did You Know? – A note regarding RMDs and QCDs

By Bruce Vigon, SNA Senior Resource Group Steering Committee Member

The recent tax law changes incorporate several provisions that could change the way those of us (or our spouses) who have reached the age of 70½ deal with IRS rules for required minimum distributions (RMDs) from eligible retirement accounts. Once an individual reaches 70½, they must withdraw funds from tax-deferred retirement accounts like traditional, SEP, and SIMPLE IRAs (but not Roth’s), 401(k)s and 403(b)s. Withdrawals from these funds paid to the owner as distributions are subject to ordinary income tax. An actuarial formula, based on the owner’s age, is applied to determine the amount that must be withdrawn each year calculated on the previous end-of-year account or accounts balance. For purposes of claiming this tax advantage, however, employer-based plans like 401(k) and 403(b) arrangements are not eligible. So, if a retiree left funds in a legacy plan, those funds must be rolled over into an IRA to qualify.

With the passage of tax legislation that takes effect in 2018, there are additional opportunities for tax savings for eligible individuals. First, the new legislation increases the amount of the standard deduction (nearly doubling it). This means fewer people will itemize. You do not need to itemize to take advantage of this tax savings on RMDs. Second, the amount of the distribution that can be dealt with in this way is a maximum of $100,000, so most donors can designate their charitable donations for the year up to or exceeding the amount of RMD and avoid taxes on all of those contributions. Third, the distribution does not have to go to one organization. As long as the organization is designated as a 501(c)(3), the amount may be divided up into however many pieces as the donor wishes.

The procedure for making these contributions may vary a bit depending on the account custodian, but the key element is that the RMD cannot be paid to the individual with a subsequent contribution by the recipient to the charitable organization. A typical process would be to inform the custodian of the charity’s name and amount of the donation to go to each organization. It would be a good idea to confirm the entity you want to give to is a qualified charitable organization (QCO in IRS parlance), i.e. a 501(c)(3). SETAC North America is a QCO. In order to be a qualified donation, no benefits, e.g. memberships, gifts, or entrance or registration fee waivers, may be received in return. The custodian will prepare a check or checks as directed and send them to the account owner who then forwards them to the QCO. This action will then be consequential for your annual Federal tax return and the amounts will not appear as taxable income.

The specifics may differ slightly among individual so consult with your tax specialist before you proceed.

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1 This article is for information only and is not tax advice. Each individual’s situation is unique. Please consult your investment or tax advisor for how this applies to your personal situation.