IRA Qualified Charitable Distribution (QCD) Provision Now Permanent

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In the past, Congress created temporary rules that allowed owners of Traditional IRAs to avoid including required minimum distributions (RMDs) from their adjusted gross income to the extent the RMD was distributed to a qualified charitable organization. However, the rules were short-term in duration and were chronically renewed at the end of the calendar year (and sometimes retroactively), making financial planning uncertain for clients and advisors alike. This changed in December 2015 with the adoption of The Protecting Americans From Tax Hikes Act of 2015, as part of the Consolidated Appropriations Act of 2016 (H.R. 2029) which, among other things, made this charitable provision permanent.

Fundamentally, with a Traditional IRA, pre-tax dollars are contributed and grow tax-free until they are distributed to you. Generally, if you are age 70.5 or older, a minimum amount must be withdrawn from the IRA each year and is added to your taxable income. This amount is mandatory (hence “Required”) and failure to take the RMD in a given year can result in a substantial penalty from the IRS.

Under the renewed QCD rule, a taxpayer can distribute all or part of their RMD directly from their IRA to a qualified charity (up to $100,000 per taxpayer, per year) with the result that it is exempt from ordinary federal income taxes. This technique can be a useful way to satisfy tax requirements for IRAs while supporting charitable causes and obtaining a tax break. Probably the biggest advantage to the QCD rule is the potential for clients to reduce their adjusted gross income (AGI). This can sometimes prove more useful than an itemized deduction, which only reduces taxable income. AGI is the benchmark for many tax calculations and having a lower figure can mean reduction or elimination of tax on Social Security benefits or other forms of income, a lower tax bracket, and eligibility for certain deductions and credits which may be unavailable if the RMD were included as income.

Determining whether the QCD mechanism can produce a positive tax effect should be a consideration for Traditional IRA owners, particularly those with limited available deductions. Whether this technique can prove beneficial as a component in your overall financial and estate plan requires a review of your particular situation and will not be appropriate in all circumstances. With the QCD provision firmly “on the books”, clients and advisors can plan further in advance and with less anxiety about this topic.

If you have any questions about this tax law change or any estate planning issues, please feel free to contact the attorney you typically work with in our office or any of the members of our Estate Planning and Wealth Preservation Practice Group.

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