Take Advantage of the IRA-to-Charity Provision

Article Highlights

- IRA-to-Charity Transfer Provision Made Permanent
- Required Minimum Distribution
- How the Provision Plays Out on a Tax Return
- Tax Benefits of the Provision

Individuals age 70.5 or over—who must withdraw annual required minimum distributions (RMDs) from their IRAs—will be pleased to learn that the temporary provision allowing taxpayers to transfer up to $100,000 annually from their IRAs to qualified charities has been made permanent. If you are age 70.5 or over and have an IRA, taking advantage of this provision may provide significant tax benefits, especially if you would be making a large donation to a charity anyway.

Here is how this provision, if utilized, plays out on a tax return:

(1) The IRA distribution is excluded from income;
(2) The distribution counts towards the taxpayer's RMD for the year; and
(3) The distribution does NOT count as a charitable contribution.

At first glance, this may not appear to provide a tax benefit. However, by excluding the distribution, a taxpayer with itemized deductions lowers his or her adjusted gross income (AGI), which helps for other tax breaks (or punishments) that are pegged at AGI levels, such as medical expenses, passive losses, taxable Social Security income, and so on. In addition, non-itemizers essentially receive the benefit of a charitable contribution to offset the IRA distribution.

If you think that this tax provision may affect you and would like to explore its possibilities, please call this office.