Qualified charitable distributions

Wealth Management

How the tax law changes may affect your giving strategies this year

Like many other Americans, giving to charity annually may be part of your long-term strategy to satisfy personal and philanthropic goals.

In the past, the tax laws encouraged charitable giving through tax deduction for gifts to qualified charities. While the Tax Cuts and Jobs Act of 2017 (TCJA) incorporated some of the most significant tax law changes for individuals and corporations in a generation, charitable giving can continue to offer tax benefits.

It may be worth noting that provisions of the TCJA may impact your tax planning strategies. For example, taxpayers who elected to itemize their deductions in the past may now decide to take a higher standard deduction. In addition, the income tax deductions for state and local income taxes, sales tax, income and property taxes together may not exceed $10,000. These changes, combined with other changes to itemized deductions under the TCJA, may result in fewer itemizers and more taxpayers claiming the standard deduction.

Changes to federal income tax standard deduction rates

Taxpayer status	Pre-TCJA tax years*	Current tax year*
Individuals	$6,500	$12,000
Heads of households	$9,550	$18,000
Married, filing jointly	$13,000	$24,000

* Prior to TCJA, taxpayers over age 65 were allowed to take an additional $1,250 deduction ($2,5000 for married couples, filing jointly). This deduction continues to be available under TCJA.

Qualified charitable deductions

Individuals over 70½ who are taking annual Required Minimum Distributions (RMDs) from IRAs can still receive a tax benefit for charitable giving with Qualified Charitable Distributions (QCDs). This strategy helps minimize the tax burden by satisfying a portion or all of the RMD obligation.

Directing required distributions from an IRA to charity continues to offer tax benefits for many taxpayers.

Under the QCDs provision, individuals can request that a distribution from their IRA be sent directly to a qualified charity of their choice. Married spouses who are both age 70½ or older can each contribute up to $100,000 annually for a total of $200,000, but contributions must come from their own respective IRAs. This allows taxpayers to lower adjusted gross income and taxable income, resulting in a lower overall tax liability.

Up to **$100,000** annually from IRA

Up to **$100,000** annually from IRA

Total of **$200,000** to qualified charity

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Hypothetical example

A hypothetical older couple in the 24% tax bracket donates $5,000 annually to charity and otherwise has consistent income and tax considerations from year to year. Prior to TCJA, they would typically itemize their deductions for the preferential tax treatment. Under the TCJA, if the couple has annual RMDs, they can direct their $5,000 donation directly to a qualified charity through a QCD and still elect the higher standard deduction. This results in a substantial reduction in their federal income tax liability.

Post TCJA no QCD 2018 tax year			Post TCJA with QCD 2018 tax year		
Adjusted Gross		$129,750	Adjusted Gross (less $5,000 QCD)		$124,750
Itemized deductions			**Itemized deductions**		
Mortgage interest	$5,000		Mortgage interest	$5,000	
State/local tax	$10,000		State/local tax	$10,000	
Charity	$5,000		Charity	$0	
		$20,000			$15,000
Personal exemptions		$0	Personal exemptions		$0
Itemized deductions/ exemptions		**$26,000**	**Standard deductions**		**$26,000**
Taxable income		$103,750	Taxable income		$98,150
Federal tax payable		$14,572	Federal tax payable		$13,472

2018 tax payable without QCD = $14,572
2018 tax payable with QCD = $13,472
Savings = $1,100

Key considerations

Certain requirements need to be met in order for a distribution to be considered a qualified charitable distribution. These include:

- The distribution must come from an IRA (traditional, inherited, Roth). The provision does not apply to active SEPs and SIMPLE IRAs or qualified plans.
- You must be age 70½ or older by the date of distribution.
- In the case of an IRA maintained for the benefit of a beneficiary after the death of an IRA owner, the beneficiary must be age 70½ or older by the date of distribution.
- The distribution must go directly from the IRA to the charity.
- The receiving charity can be any qualified nonprofit other than a Donor Advised Fund, a supporting organization or certain private foundations.
- The contribution must be one that would normally be 100% deductible as a charitable contribution.

Call to action

To discuss your philanthropic and tax planning goals, contact your RBC Wealth Management® financial advisor today.

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