NEW CANAAN COMMUNITY FOUNDATION

Advantages of Giving from Your IRA

If you are aged 70 ½ or older and have an Individual Retirement Account (IRA) subject to an annual *Required Minimum Distribution* (known as RMD) there can be significant tax advantages to making charitable contributions directly from your IRA instead of from after-tax income, especially in light of the doubling of the standard income tax deduction starting from 2018.

Here's how it works. In most cases, the Internal Revenue Code requires you to draw a certain amount from an IRA every year once you reach 70 ½, and the withdrawal is taxable at normal rates. You can use the funds you receive to make a charitable contribution, which is deductible for federal income tax (but not state income tax) *unless* you elect the standard deduction – this is now $12,000 for individuals and $24,000 for married couples filing jointly.

Alternatively, you could direct part or all of your RMD from your IRA to a charity, such as NCCF, instead of to you. This is known as a *Qualified Charitable Distribution* (QCD). The annual maximum is the full amount of your RMD up to $100,000 per individual ($200,000 for a couple filing jointly.) The QCD is excluded from taxable income, so this reduces *both* federal and state income taxes. You won't be able to take a charitable deduction, but you will have saved on state income tax, and can take the standard deduction if your itemized deductions would be less.

Let's look at an example using the top combined income tax rate for a Connecticut resident, which is currently 43.99%. Fred and Joan have taxable income of $600,000, which includes their RMD from an IRA, and are subject to the top rate. Let's say they donate $10,000 to NCCF from after tax income and their itemized deductions, including this donation, are less than the standard deduction of $24,000. They would receive no tax relief from the donation.

If, however, they arrange with the manager of their IRA to make a QCD from their IRA of $10,000 directly to NCCF (assuming their annual RMD is at least $10,000) they will save tax of 43.99% of $10,000 – a saving of $4,399.

Even if they do not take the standard deduction and itemize their deductions, including their charitable contributions, they will still save $699 on state taxes and would be better off making their donation via a QCD.

As always consult a tax advisor before making decisions. In some cases, it may be more beneficial to make a donation of appreciated stock from a brokerage account, receive a deduction for the charitable contribution, and avoid having to pay capital gains tax on the appreciated value. Instructions on how to donate stock to NCCF are found here. Your tax advisor can determine what is best for you.

For more information, please contact Foundation President & CEO, Lauren Patterson, at lpatterson@newcanaancf.org or 203-966-0231.