Saving Tax Dollars While Making a Charitable Gift Under the New Tax Code

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Under the new tax code, if you are unable to itemize deductions on your tax return, then you may not be able to get a tax deduction for your charitable contribution.

The reason fewer people will be using itemized deductions is due to the 2018 tax code, which caps state and property tax deductions at $10,000. Your standard deduction is doubled to $12,000 for a single payer (plus $1,600 additional if over age 65) and $24,000 for married couples filing jointly (plus an additional $1,300 per person over 65). Even if you paid $10,000 in state income tax and $5,000 in property tax, you can only use up to $10,000 of these deductions. In this example, if a married couple made charitable gifts of $5,000, their standard deduction is still greater, which means that they are not eligible to get a tax benefit for their charitable gifts.

Penalties for IRA Withdrawals (at any Age)

Upon reaching age 70½, the government requires that the owner of an IRA account begins to withdraw money from this account. The required minimum distribution (RMD) amount is determined by the IRS formula using attained age and the end of the previous year's account value. The money that is withdrawn is added as taxable income to your tax return for that year. This is the government's way to guarantee that tax is paid on the previous untaxed money that went into the retirement account.

Introducing the Qualified Charitable Deduction (QCD) Strategy

The Qualified Charitable Deduction allows you to still make charitable gifts and get the full tax benefits from those gifts. **Under the Qualified Charitable Distribution rule, the owner of the IRA account can transfer up to $100,000 per year from the IRA directly to a qualified charity, such as Morrissey-Compton Educational Center**. Any amount processed under the QCD rule qualifies toward the RMD, and **the amount is not added to taxable income**. Because this portion of your RMD is excluded from your taxable income, your adjusted gross income is lowered by the amount of your charitable gift. Thus, you get the full benefit for any charitable gift you make using this strategy.

Please talk with your tax professional to see if this strategy is right for you.

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