

# Tax-Free Charitable Contributions from IRAs Extended Once Again

## Background

The Pension Protection Act of 2006 first allowed taxpayers age 70 ½ or older to exclude from gross income otherwise taxable distributions (“qualified charitable distributions,” or QCDs) from their IRA that were paid directly to a qualified charity. Taxpayers were able to exclude up to \$100,000 in both 2006 and 2007. The law was extended through 2009 by the Emergency Economic Stabilization Act of 2008, and has been extended again, through 2011, by the Tax Relief, Unemployment Reauthorization, and Job Creation Act of 2010 (the Tax Relief Act).

## How QCDs work for 2011

You must be 70 ½ or older in order to make QCDs. You direct your IRA trustee to make a distribution directly from your IRA (other than SEP and SIMPLE IRAs) to a qualified charity. This distribution must be one that would otherwise be taxable to you. You can exclude up to \$100,000 of QCDs from your gross income in 2011. If you file a joint return, your spouse can exclude an additional \$100,000 of QCDs in 2011. Note: You don’t get to deduct QCDs as a charitable contribution on your federal tax return—that would be double dipping.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to receive from your IRA in 2011, just as if you had received an actual distribution from the plan. However, distributions that you actually receive from your IRA (including RMDs) that you subsequently transfer to a charity cannot qualify as QCDs.

Example: Assume that your RMD for 2011, which you’re required to take no later than December 31, 2011 is \$25,000. You receive a \$5,000 cash distribution in February 2011, which you then contribute to St. Joseph Church. In June 2011, you also make a \$15,000 QCD to St. Joseph Church. You must include the \$5,000 cash distribution in your 2011 gross income (but you may be entitled to a charitable deduction if you itemize your deductions). You exclude the \$15,000 of QCDs from your 2011 gross income. Your \$5,000 cash distribution plus your \$15,000 QCD satisfy \$20,000 of your \$25,000 RMD. You’ll need to withdraw another \$5,000 no later than December 31, 2011, to avoid a penalty.

Example: Assume you turned 70 ½ in 2010. You must take your first RMD (for 2010) no later than April 1, 2011. You must take your second RMD (for 2011) no later than December 31, 2011. Assume each RMD is \$25,000. You don’t take any actual distributions from your IRA in 2011. Prior to April 1 you make a \$25,000 QCD to St. Paul Church. Because the QCD is made prior to April 1, it satisfies your \$25,000 RMD for 2010. Prior to December 31, 2011 you make a \$75,000 QCD to St. Paul Church. Because the QCD is made prior to December 31, it satisfies your \$25,000 RMD to 2011. You can exclude the \$100,000 of QCDs from your 2011 gross income.

As indicated above, a QCD must be an otherwise taxable distribution from your IRA. If you’ve make nondeductible contribution, then normally each distribution carries with it a pro-rate amount of taxable and nontaxable dollars. However, a special rule applies to QCDs—the pro-rate rule is ignored and your taxable dollars are treated as distributed first. (If you have multiple IRAs, they are aggregated when calculating the taxable and nontaxable portion of a distribution from any one IRA. RMDs are calculated separately of each IRA you own, but may be taken from any of your IRAs).

## Why are QCDs important?

Without this special rule, taking a distribution from your IRA and donating the proceeds to a charity would be a bit more cumbersome, and possibly more expensive. You would need to request a distribution from the IRA, and then make the contribution to the charity. You’d receive a corresponding income tax deduction for the charitable contribution. But the additional tax from the distribution may be more than the charitable deduction, due to the limits that apply to charitable contributions under Internal Revenue Code Section 170. QCDs avoid all this, by providing an exclusion from income for the amount paid directly from your IRA to the charity—you don’t report the IRS distribution in your gross income, and you don’t take a deduction for the QCD. The exclusion from gross income for QCDs also provides a tax-effective way for taxpayers who don’t itemize deductions to make charitable contributions.

**For more complete information and to take advantage of the Tax Relief Act,  
please contact your financial advisor.**

The information contained in this material is being provided for general education purposes and with the understanding that it is NOT intended to be used or interpreted as specific legal, tax or investment advice. It does not address or account for your individual investor circumstances. Investment decisions should always be made based on your specific financial needs and objectives, goals, time horizon and risk tolerance. You cannot not rely on this to avoid tax penalties that may be imposed under the internal Revenue Code. Consult your tax advisor or attorney regarding all tax and legal issues specific to your circumstances.