IRA Charitable Distributions: A Win-Win Scenario

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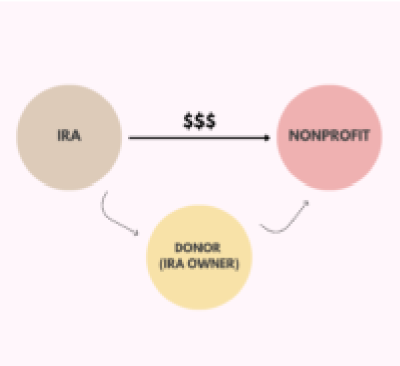
One of the guiding values of Knox Law is "Community," including support of nonprofit organizations. Our clients share this value, often expressing interest in charitable giving as part of their estate planning goals.

While there are many ways to achieve your philanthropic goals, making donations through a personal retirement account (such as an individual retirement account or IRA) can be very effective.



One of the important advantages of making donations through an IRA is that you are able to use money that would otherwise be taxed to you to fund your donations to the nonprofit of your choice.

As long as the nonprofit is a fully tax-exempt charitable organization, it will not be taxed on money that is donated to it through the use of a donor's IRA.

Donors can therefore take satisfaction in knowing that their donated dollars are getting "more bang for the buck" in helping the nonprofit to fulfill its mission.

In fact, during his or her lifetime, an IRA owner can annually donate up to $100,000 directly from their IRA to a charity. Under this type of arrangement, the money goes right to the charity without ever touching the IRA owner's hands. If the gift is structured in that way, it's known as a *qualified charitable distribution* or QCD.

A *qualified charitable distribution* is particularly advantageous because it's excludable from the donor's taxable income both for federal and state income tax purposes. That can be particularly important for donors who might not otherwise receive a tax benefit from making a charitable donation because they don't itemize for tax purposes.

Another very important tax benefit to making donations in this way is that the donation can be counted toward the amount withdrawn from the owner's IRA during the year. Once IRA owners reach a certain age (currently 73 years old), they are required to annually withdraw certain minimum amounts of money from their IRAs and pay tax when they receive that money as income.Even if the IRA owner does not need the money, they must withdraw at least that minimum amount and pay tax on it.

However, if IRA money is donated to a charity through a QCD, then even though it is not taxed to the IRA owner, it still counts toward the minimum amount that the IRA owner is required to withdraw from the IRA during that tax year. So in that respect, it can be a “double benefit” to IRA owners.

Charitable giving can be an important and strategic part of an overall estate plan, and giving through an IRA account can be a win-win for donors and nonprofits.

We encourage clients to discuss all opportunities with an estate planning attorney knowledgeable in charitable giving, as well as any financial and/or accounting advisors with whom they work.

We are happy to work with you (and/or your clients) to plan charitable giving in the best way possible for maximum benefit, asset protection, and tax efficiency.

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