

The Secret Upside to Donating to Charity Directly From an IRA

By Kerri Anne Renzulli, Oct. 31, 2016
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Q: Is there an additional tax benefit to contributing required minimum distribution dollars directly to a charity versus reporting the funds as a charitable contribution at the end of the tax year? — Susan Lutterman

A: There are a lot of tax perks to be gained from giving your

required minimum distributions from an IRA directly to a charity — particularly if you don't itemize. But there are some caveats as well.

If you make a direct transfer from your IRA to a charity, you get to count that money toward your RMD — but because it's not actually distributed to you, it won't increase your adjusted gross income. That means the move could help you avoid the Medicare high-income surcharge on income over \$250,000 for couples filing jointly (\$200,000 for singles), make fewer of your Social Security dollars taxable, and maybe even keep you in a lower tax bracket, among other benefits, says Henry Grzes, lead technical manager on the American Institute of CPA's tax practice and ethics team.

The move is especially valuable if you don't itemize your deductions, because it lets you reap a tax benefit for your generosity. "Many people do not have sufficient need to itemize, and so it makes sense for them to give their RMDs to a nonprofit since they won't get a charitable deduction," says Grzes. "When you give directly, you avoid that issue and ensure you get at least get some tax benefits."

If you itemize, however, this may not be the best strategy for you — because if you make a tax-free transfer from your IRA to a charity, you cannot also deduct that money as a charitable contribution. If that's your goal, take the withdrawal yourself and then make the donation.

You should also avoid a direct transfer if you plan to donate the money to a private foundation or a donor-advised fund. Only gifts to public charities qualify you for the tax-free treatment.

How to Make the Transfer

To gift your RMD to a charity, contact both your IRA account administrator and the charity itself to find out the correct protocol. If you have check-writing privileges for your IRA, you can write a check to the charity yourself. If not, you may need to have the IRA administrator cut a check from your account to the charity.

Be sure to give the charity a heads up in advance, so it can ensure the contribution is correctly handled, know who sent it, and send an acknowledgement.