Qualified charitable distributions

Some popular tax planning strategies that were previously not permanent in the law but had been approved on a yearly basis were finally made permanent with the passage of the Protecting Americans from Tax Hikes (PATH) Act of 2015. Most notable for the financial services industry was the provision for qualified charitable distributions (QCD) that allows individuals to send a distribution not to exceed $100,000, made out directly to a charity from their traditional or Roth IRA. The distribution will count towards satisfying their required minimum distribution (RMD). To take advantage of this, the IRA owner must be at least age 70½. The age requirement means traditional IRA owners must take an RMD. The contribution to the charity cannot be taken as an itemized deduction on their tax return, but the qualified charitable distribution is not counted in their taxable income.

For many retired individuals, donations to charities may no longer result in favorable tax treatment. Once the total of all itemized deductions has dropped below the standard deviation, taxpayers receive no favorable tax treatment for deductions that count as itemized deductions. Many retired individuals have mostly or completely paid for their house, meaning the interest paid on their mortgage may no longer result in the large itemized deduction it once did. While there are many things that can be itemized, property taxes included, the interest paid on the mortgage balance is often a large percentage of itemized deductions in the early years of the mortgage. The provision in the PATH Act making qualified charitable distributions permanent provides a way for individuals and couples filing using their standard deduction to receive favorable tax treatment for contributions to charities, provided the contributions meet the requirements stated above. Individuals should consult with their tax advisor for additional details.
