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The Science of Gifting

ESTATE PLANNING, SD MEDALLION SERVICES, WEALTH MANAGEMENT
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If you are age 70½ the federal government has given you a permanent gift with new legislation that may give you a break on your income tax.

At that age, you must begin to take Required Minimum Distributions (RMD) from your IRA accounts. Along with the distribution comes the tax bite. During your working years, the tax deferral was welcome. In your retirement years, with a fixed pool of assets, the tax bill is a bitter pill.

The Consolidated Appropriations Act of 2016 made permanent Qualified Charitable Distributions in lieu of RMD distributions. In simple terms, if you are at least 70½, you can donate up to $100,000 directly from your IRA to a qualified charity. Gifts are made in pretax funds and can be assumed taken from multiple IRAs. If you regularly give to a charity or religious institution, this is the right way to give.

You will not get a charitable deduction, but with itemizing, those deductions can be limited. More importantly, you do not have to include the distribution in your adjusted gross income on your tax return. This has a threefold benefit:

1. It will reduce your tax bill.
2. It may eliminate or reduce taxation of Social Security benefits. Depending upon your combined income, [2] up to 85% of your benefit can be taxable.
3. It can prevent Medicare premiums from rising. Medicare premiums are based on a look-back of MAGI[1] from the most recent tax return.

There are a few codicils: the distribution must go directly to the charity; you cannot take possession of the funds first. The charity must acknowledge the gift in writing. You cannot donate to a charitable gifting fund you hold in your own name for future gifts. This is meant for the immediate benefit of the charity.

Another great way to gift is to donate appreciated securities from your non-retirement accounts. These are stocks or funds you hold in your portfolio that have a low tax basis or cost. Often we are reluctant to sell these appreciated positions to avoid imposition of capital gains tax. This strategy will avoid the tax and will allow a full deduction on Schedule A at fair market value.

Charitable donations are an important part of any lifetime plan. There are complexities, but if you gift correctly, you can support your favorite charity and save some tax dollars. As always, consult your tax and financial advisors.

Contact us with questions regarding income tax breaks related to charitable giving.

[1] MAGI – AGI from your tax return plus tax-exempt income. For a joint filer,

premiums rise if MAGI is over $170,000.

[2] Combined income – Modified AGI plus one-half of your Social Security benefits. Social Security is subject to taxation if combined income is over $32,000 for a joint filer.

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