McCarthy Asset Management, Inc.

Personalized Wealth Management

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When to Consider Qualified Charitable Distributions

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For those who are over 70 ½ and have a required minimum distribution (RMD) from their IRA account, one option is to make a qualified charitable distribution. This is done by directly contributing part or all of your IRA RMD to one or more qualified charities. Distributions made this way are counted toward your RMD, but are not included in your taxable income. Otherwise, IRA distributions are included in your Adjusted Gross Income and subject to ordinary income tax rates.

Below are the specific rules that apply to Qualified Charitable Distributions:

- On the date of the contribution you must be over 70½.
- Inherited IRAs can qualify for the charitable contribution distribution BUT only if the beneficiary of the IRA is over 70½.
- The maximum dollar amount for the distribution is $100,000 a year per person. Married people can each make $100,000 in donations as long as they come from their own IRAs.
- These charitable contributions can only come from individual IRAs, not SEPs or SIMPLE IRAs or any type of employer retirement plan.
- You must have your IRA custodian (brokerage firm) directly send the check to the charity. Contact your custodian for the proper form to submit a check request. Be sure no taxes are withheld from the distribution. All the money must go to the charity to qualify and you won't owe taxes anyway.
- Timing is important. You want to make your charitable distributions first, before taking any other distributions from your IRA. That's because the RMD is satisfied from the first distributions that come from the account. You can't undo your distribution once it has been made.

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"For some IRA owners over age 70 1/2, qualified charitable distributions are an excellent strategy."

McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio Management and Tax Planning.

- The distribution must be made to a public charity. Private foundations and donor advised funds aren't eligible. If 100% of the donation does not go to the charity, it does not count. For instance, if you donate to KQED Public TV and receive a "thank you gift" for your donation, the donation won't qualify.
- You also cannot claim an itemized deduction for the qualified charitable distribution.
- Be sure to keep proper documentation for your distribution. A receipt from the charity listing the date and amount of the donation, as well as stating "no goods or services were received," is best.

Two Good Reasons to Consider Qualified Charitable Distributions

1. Higher Standard Deductions

Changes to the tax law in 2018 included a large increase in the standard deduction. Many taxpayers, who used to itemize for federal taxes, may be switching to the standard deduction. That would mean that they would receive no benefit on their Federal return for charitable deductions.

For single taxpayers, the itemized deduction is $12,000 in 2018. If you are single and over 65, you can add $1,600, increasing the standard deduction $13,600. For married taxpayers, the standard deduction is $24,000. Add $1,300 for each individual over 65 and the standard deduction could potentially be as high as $26,600 in 2018.

Here's an example:

John is single. He projects his 2019 modified adjusted income to be $162,000. He has a required minimum distribution from his IRA of $20,000. He regularly makes an annual donation to his church of $5,000. Usually he writes a check to the church and claims it as an itemized deduction on his Schedule A. In 2019 he won't have enough expenses to itemize for federal taxes. After learning about qualified charitable distributions, he satisfies part of his RMD by having his IRA custodian directly contribute $5,000 from his IRA to his church. Note that John did not increase his charitable gift. He simply changed how he gives. He shifted the gift from an itemized deduction that provided no tax benefit, to a reduction in IRA distribution income.

This makes sense if:

- You plan to contribute to a charity anyway.
- Your deductions are under the threshold to itemize for federal taxes.
- From a tax perspective, it may be better to decrease adjusted gross income than to increase itemized deductions. Some deductions like medical expenses and miscellaneous itemized deductions are based on adjusted gross income (AGI). California did not conform to many of the federal tax changes. Therefore, John may still be able to itemize for California and deduct more expenses on his state tax return because of the lower AGI.

2. Tax Planning for Medicare Premiums

Your 2019 Medicare premiums are based on the income reported on your 2017 tax return. The government subsidizes Medicare. Those with higher incomes pay a higher percentage of the Medicare cost. Looking ahead, you may be able to reduce your 2021 Medicare premiums by making changes that affect your 2019 income. If you reduce your AGI by using a qualified charitable distribution, you might decrease your Medicare premiums.

Medicare Brackets for 2019

Filing Single MAGI in 2017:	Married Filing Joint MAGI in 2017:	Percent of Cost Covered by Monthly Part B Premiums	Part B Monthly Payment For 2019
$85,000 or less	$170,000 or less	25%	$135.50
$85,001- $107,000	$170,001- $214,000	35%	$189.60
$107,001- $133,500	$214,001- $267,000	50%	$270.90
$133,501- $160,000	$267,001- $320,000	65%	$352.20
$160,000- $500,000	$320,000-$750,000	80%	$433.40
Above $500,000	Above $750,000	85%	$460.50

Our Services

Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

Tax Services: Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:

- Tax Return Preparation
- Income Tax Projections
- Tax Minimization Ideas
- Tax Authority Representation

Other Services: MAM has retained several outside experts, whose services are available at no cost to our clients:

- Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.

Here's an example:

John is single. He projects his 2019 modified adjusted income to be $162,000. That places him in the second highest Medicare bracket. After learning about qualified charitable distributions, he satisfies a portion of his RMD by having his IRA custodian directly contribute $5,000 from his IRA to his church.

When John prepares his 2019 tax return, his modified adjusted gross income will be $5,000 less, or $157,000. Using the current Medicare data, John has dropped down a bracket for his 2019 Medicare Part B premium. We don't know the rates for 2020 yet, but using 2019 data, he would save $81.20/month on his Part B premium or $974.40/yr.

Due to the time lag between the end of a tax year and when premiums are determined, it's hard to predict exactly how much savings you will receive by moving into a lower threshold for Medicare. We also can't predict when or if Medicare might adjust the brackets again.