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Lutherans**
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Charitable Contributions from IRAs

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Background

The Pension Protection Act of 2006 first allowed taxpayers age 70½ or older to exclude from gross income otherwise taxable distributions from their IRA ("qualified charitable distributions," or QCDs), up to \$100,000, that were paid directly to a qualified charity. These gifts are also known as "Charitable IRA rollovers." The law was originally scheduled to expire in 2007, but was extended through 2013 by subsequent legislation.

How QCDs work for 2013

You must be 70½ or older in order to make QCDs. You direct your IRA trustee to make a distribution directly from your IRA (other than SEP and SIMPLE IRAs) to a qualified charity. The distribution must be one that would otherwise be taxable to you. You can exclude up to \$100,000 of QCDs from your gross income in 2013. If you file a joint return, your spouse can exclude an additional \$100,000 of QCDs in 2013. Note: You don't get to deduct QCDs as a charitable contribution on your federal income tax return--that would be double-dipping.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to receive from your IRA, just as if you had received an actual distribution from the plan. However, distributions that you actually receive from your IRA (including RMDs) that you subsequently transfer to a charity cannot qualify as QCDs.*

Example(s): Assume that your RMD for 2013, which you're required to take no later than December 31, 2013, is \$25,000. You receive a \$5,000 cash distribution from your IRA in February 2013, which you then contribute to Charity A. In June 2013, you also make a \$15,000 QCD to Charity A. You must include the \$5,000 cash distribution in your 2013 gross income (but you may be entitled to a charitable deduction if you itemize your deductions). You exclude the \$15,000 of QCDs from your 2013 gross income. Your \$5,000 cash distribution plus your \$15,000 QCD satisfy \$20,000 of your \$25,000 RMD for 2013. You'll need to withdraw another \$5,000 no later than December 31, 2013, to avoid a penalty.

Example(s): Example: Assume you turned 70½ in 2012. You must take your first RMD (for 2012) no later than April 1, 2013. You must take your second RMD (for 2013) no later than December 31, 2013. Assume each RMD is \$25,000. You don't take any cash distributions from your IRA in 2012 or 2013. On March 31, 2013, you make a \$25,000 QCD to Charity B. Because the QCD is made prior to April 1, it satisfies your \$25,000 RMD for 2012. On December 31, 2013, you make a \$75,000 QCD to Charity C. Because the QCD is made by December 31, it satisfies your \$25,000 RMD for 2013. You can exclude the \$100,000 of QCDs from your 2013 gross income.

As indicated above, a QCD must be an otherwise taxable distribution from your IRA. If you've made nondeductible contributions, then normally each distribution carries with it a pro-rata amount of taxable and nontaxable dollars. However, a special rule applies to QCDs--the pro-rata rule is ignored and your taxable dollars are treated as distributed first. (If you have multiple IRAs, they are aggregated when calculating the taxable and nontaxable portion of a distribution from any one IRA. RMDs are calculated separately for each IRA you own, but may be taken from any of your IRAs.)

Caution: The gift cannot be made to a private foundation, donor-advised fund, or supporting organization (as described in IRC Section 509(a)(3)). The gift cannot be made in exchange for a charitable gift annuity or to a charitable remainder trust.

Why are QCDs important?

Without this special rule, taking a distribution from your IRA and donating the proceeds to a charity would be a bit more cumbersome, and possibly more expensive. You would need to request a distribution from the IRA, and then make the contribution to the charity. You'd receive a corresponding income tax deduction for the charitable contribution. But the additional tax from the distribution may be more than the charitable deduction, due to the limits that apply to charitable contributions under Internal Revenue Code Section 170. QCDs avoid all this, by providing an

exclusion from income for the amount paid directly from your IRA to the charity--you don't report the IRA distribution in your gross income, and you don't take a deduction for the QCD. The exclusion from gross income for QCDs also provides a tax-effective way for taxpayers who don't itemize deductions to make charitable contributions.

Special rules for 2012

Because the QCD rules were extended retroactively to 2012, two special rules applied for that year:

- You could elect to treat any QCDs you made during January 2013 as having been made on December 31, 2012. This allowed taxpayers to make QCDs in January 2013 and have them apply against the 2012 \$100,000 limit.
- If you received a distribution from your IRA during December 2012 (even if the distribution was an RMD), you could elect to treat all or part of that distribution as a QCD if you transferred the cash to a qualified charity no later than January 31, 2013.

The IRS (on its Retirement Plans webpage) has clarified that a QCD made in January 2013 that is treated as a 2012 QCD will satisfy an IRA owner's unmade 2012 RMD if the QCD equals or exceeds the 2012 RMD. Further, QCDs made in January 2013 for 2012 cannot be used to satisfy an IRA owner's 2013 RMD (even if the IRA owner has already received his or her 2012 RMD). The webpage also provides guidance on how 2012 QCDs are to be reported on Form 1040 by IRA owners, and on Form 1099 by IRA trustees.



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