



Do You Know How You Can Eliminate Income Tax on Your IRA Required Minimum Distribution by Supporting the Cornwall Alliance?

by William Purcell

The following is for general information only and is believed to be correct. It does not constitute tax or legal advice.

Consult your Enrolled Agent, CPA, or tax attorney for the latest information.

When you donate to the Cornwall Alliance, or any qualified charity, you normally receive a charitable tax deduction from your income tax, regardless of the source of your donation (regular income, savings, inheritance etc.), up to certain limits.

Did you know you can give some of that donation directly from a pre-tax source, such as a traditional IRA, and potentially reduce your overall tax burden? This Qualified Charitable Deduction (QCD) may otherwise also reduce your Adjusted Gross Income (AGI). The AGI is often the basis for tax deduction phase outs and Medicare premium increases.

That's right.

If you're 72 or older and have an Individual Retirement Account (IRA), you must make a Required Minimum Deduction (RMD) each year, and when you do, you pay income tax at your highest marginal rate. For example, if your RMD is \$20,000 and you're in the 32% marginal tax bracket, you'll owe an additional \$6,400 in tax.

Instead, you can instruct your IRA trustee to make a direct QCD payment, and neither you nor the charity that receives it will pay any tax on it.

In short, you can do well by doing good with your 2022 IRA QCD, at the same time you support the Cornwall Alliance!

How Is This Possible?

In December 2015, Congress passed a law to allow the QCD from an IRA (but not from a 401k, 403b, SEP, Keogh, etc. These must first be rolled over into a traditional IRA, after which a QCD can be made from that). The distribution must transfer directly to a qualified charitable organization, e.g., the Cornwall Alliance, a 501(c)(3) organization.

Why Is This Important?

Required Minimum Deductions (RMD) from an IRA must begin either in the year one turns 72, or the year following. If the latter, the IRA owner must make two RMDs to comply with the law.



Failure to distribute the proper RMD amount can result in a 50% penalty of the undistributed, required amount, plus interest. This penalty is and intends to be confiscatory, so that the government will get its income tax on assets so long sheltered.

But a QCD can substitute for the RMD, making the amount distributed nontaxable.

General Guidelines

- One can start the QCD at 70½, although there is no RMD at that age.
- Maximum donation is \$100,000 gross each year for all QCDs.
- To avoid [constructive receipt](#), donations should be made directly from your IRA trustee to the charity, not distributed first to you for you to then donate.
- While Cornwall Alliance cannot give tax or legal advice, an associate of the Cornwall Alliance is available to discuss general information and assist you at no charge in dealing with your IRA brokerage or trustee.
- The distribution from your IRA will be reported on a 1099-R for a normal, non-inherited IRA. The donor is responsible to keep records and differentiate between a QCD and a regular RMD.
- The QCD is **NOT** tax deductible because the money and earnings were never taxed.
- The QCD must be completed normally by December 31 of the tax year.

Please consider helping the Cornwall Alliance by making a QCD from your IRA. You'll do well by doing good!

William Purcell has been a financial planner over 42 years and is a retired CFP® and retired registered investment advisor (RIA). He chaired a union pension investment committee with oversight responsibility, in a Fortune 500 company, for up to \$5 Billion of assets in defined benefit, and defined contribution (money purchase and 401k) pension plans. He is a certificate holder from the University of Pennsylvania, Wharton School of Business, Pension and Investments executive program.