

Financial Column

Thrivent Financial

West Central Ohio Team

Beth Kitson, FIC

Financial Associate

10730 Lincoln Hwy

P.O. Box 555

Van Wert, OH 45891

419-232-4310

877-236-4174

beth.kitson@thrivent.com

www.thrivent.com

Charitable Contributions from IRAs

Background

The Pension Protection Act of 2006 first allowed taxpayers age 70½ or older to make tax-free charitable donations directly from their IRAs. Technically, these taxpayers were allowed 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 periodically through 2014 by subsequent legislation, and finally made permanent by the Protect Americans from Tax Hikes (PATH) Act of 2015.

How QCDs work for 2017

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 2017. If you file a joint return, your spouse can exclude an additional \$100,000 of QCDs in 2017. 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 2017, which you're required to take no later than December 31, 2017, is \$25,000. You receive a \$5,000 cash distribution from your IRA in February 2017, which you then contribute to Charity A. In June 2017, you also make a \$15,000 QCD to Charity A. You must include the \$5,000 cash distribution in your 2017 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 2017 gross income. Your \$5,000 cash distribution plus your \$15,000 QCD satisfy \$20,000 of your \$25,000 RMD for 2017. You'll need to withdraw another \$5,000 no later than December 31, 2017, to avoid a penalty.

Example(s): Example: Assume you turned 70½ in 2016. You must take your first RMD (for 2016) no later than April 1, 2017. You must take your second RMD (for 2017) no later than December 31, 2017. Assume each RMD is \$25,000. You don't take any cash distributions from your IRA in 2016 or 2017. On March 31, 2017, 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 2016. On December 31, 2017, you make a \$75,000 QCD to Charity C. Because the QCD is made by December 31, it satisfies your \$25,000 RMD for 2017. You can exclude the \$100,000 of QCDs from your 2017 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.

The information provided in these materials, developed by an independent third party, is for informational purposes only and has been obtained from sources considered to be reliable. However, Thrivent Financial does not guarantee that the foregoing material is accurate or complete. The material is general in nature and does not purport to be a complete description of the products, securities, concepts, services, markets, or developments referred to in this material. This information is not intended as a solicitation or an offer to buy or sell any product or service referred to herein. The information does not take into consideration your personal financial or account information. Products mentioned may not be suitable for all individuals. Past performance may not be indicative of future results. Thrivent Financial and its respective associates and employees cannot provide legal, accounting, or tax advice or services. Work with your Thrivent Financial representative, and as appropriate, your attorney and/or tax professional for additional information. Insurance products issued or offered by Thrivent Financial, the marketing name for Thrivent Financial for Lutherans, Appleton, WI. Not all products are available in all states. Securities and investment advisory services are offered through Thrivent Investment Management Inc., 625 Fourth Ave. S., Minneapolis, MN 55415, a FINRA and SIPC member and a wholly owned subsidiary of Thrivent Financial, the marketing name for Thrivent Financial for Lutherans, Appleton, WI. Thrivent Financial representatives are registered representatives of Thrivent Investment Management Inc. This article was prepared by Thrivent Financial with an article from Broadridge Investor Communication Solutions, Inc. Copyright 2017 for use by local area Financial Associate, Beth Kitson.

About Thrivent Financial

Thrivent Financial is a financial services organization that helps Christians be wise with money and live generously. The organization offers a broad range of products and services along with guidance from financial representatives nationwide. For more than a century it has helped its more than 2 million member-owners make wise money choices that reflect their values. Thrivent also provides opportunities for members to be even more generous where they live, work and worship. For more information, visit www.thrivent.com/. You can also find us on [Facebook](#) and [Twitter](#).

The information provided in these materials, developed by an independent third party, is for informational purposes only and has been obtained from sources considered to be reliable. However, Thrivent Financial does not guarantee that the foregoing material is accurate or complete. The material is general in nature. Thrivent Financial and its respective associates and employees cannot provide legal, accounting, or tax advice or services. Work with your Thrivent Financial representative, and as appropriate, your attorney and/or tax

professional for additional information.

Insurance products issued or offered by Thrivent Financial, the marketing name for Thrivent Financial for Lutherans, Appleton, WI. Not all products are available in all states. Securities and investment advisory services are offered through Thrivent Investment Management Inc., 625 Fourth Ave. S., Minneapolis, MN 55415, a FINRA and SIPC member and a wholly owned subsidiary of Thrivent Financial, the marketing name for Thrivent Financial for Lutherans, Appleton, WI. Thrivent Financial representatives are registered representatives of Thrivent Investment Management Inc.

-END-