

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.

<https://www.wsj.com/articles/ira-charity-donation-taxes-11656694166>

MARKETSJOURNAL REPORTS: PERSONAL INVESTING

When Donating to Charity From an IRA, Beware of These Tax Traps

The nuances are crucial, because if you mess it up, it can cost you



By Leonard Sloane

July 1, 2022 1:00 pm ET

Using your individual retirement account to give to charity is a good thing. But tax snafus can ruin the good intentions.

Traditional IRAs have long been used to make qualified charitable distributions. Eligible individuals can donate as much as \$100,000 a year. Such gifts can make up part or all of the donor's required minimum distribution, or RMD. And amounts donated to qualified charities are excluded from the donor's taxable income for that year.

For example, if your RMD this year is \$10,000 and you are charitably inclined, you can give \$5,000 of this amount to your favorite qualified charity. Instead of having to report a \$10,000 distribution as income to the IRS, only \$5,000 will be taxed according to your income bracket.

However, there are some little-known nuances with qualified charitable distributions to be aware of.

“So many people make mistakes with the rules,” says Andy Ives, an IRA analyst at Ed Slott & Co., a tax consulting firm in Rockville Centre, N.Y. “If you mess it up, you’re going to have a

taxable event and money added to your income for the year.”

No quid pro quo

One mistake is making a gift to a donor-advised fund, private foundation or charitable-gift annuity. To obtain the tax benefit, there must be a full release of the funds directly to a charity.

Another mistake is when the donor accepts something in return for their gift. It's obvious that you can't receive a college scholarship for your grandchild as a quid pro quo. But you can't even accept a tote bag, coffee mug or T-shirt as a token “thank you.”

Nor can you take a deduction for such a gift. Since you're already reducing your taxable income by subtracting the gift from your required minimum distribution, the IRS would consider the additional deduction to be “double dipping.”

Qualified charitable distributions do offer an additional tax benefit, however, for those who don't itemize. With the standard deduction now at \$12,950 for single people and \$25,900 for married couples filing jointly, making charitable donations from your retirement account allows you in effect to reduce your taxable income by more than the standard deduction and still avoid the hassle of itemizing.

Although the Secure Act raised to 72 the age at which RMDs begin, the eligible age for making qualified charitable distributions still starts at age 70½ (and you must actually be 70½, not turning 70½ later that year). So if you are charitably disposed *and* 70½, you can make the gift even before the RMD is to begin.

Regardless of when you make the qualified charitable distribution, it does more than just reduce your adjusted gross income and possibly prevent you from entering a higher tax bracket, which could be as much as 37%. It also may mitigate “stealth taxes” based on adjusted gross income, such as Medicare Part B and Part D surcharges.

You can't make a qualified charitable distribution from a workplace plan, such as a 401(k). Since the tax has already been paid, you also can't do it from a Roth IRA (except in rare circumstances) or from an active SEP or Simple IRA. A SEP or Simple IRA must be inactive to qualify, meaning no money was contributed to the SEP or Simple IRA that year.

If you make qualified distributions to more than one charity in a year, you must have a separate written acknowledgment showing the date and amount of the contribution from

each organization as documentation to substantiate the gift.

The custodian of your IRA—a bank, brokerage firm or mutual-fund company—will typically have a charitable-distribution form or process that you must follow. Custodians usually send the money directly to the charity. However, checks can also be made payable to the charity and sent to the account owner for delivery to the organization.

Let the IRS know

When you receive a Form 1099-R from the custodian showing the distribution, there is no special coding indicating that it was a qualified charitable distribution. Therefore, it is your responsibility to inform the IRS about it on your federal tax return.

Similar to how a rollover is reported on Form 1040, you would list the full distribution on line 4a. On line 4b, where you report your taxable IRA distributions, if the total amount was used for qualified charitable distributions, you would enter zero; if only part was used for charity, you would enter the remainder as the taxable amount. Next to line 4b or in a dropdown box if filing electronically, you would then label the amount of the qualified charitable distributions.

Qualified charitable giving continues to be a valuable tax-saving strategy for many people. To qualify for the benefit, though, the distribution must be completed by Dec. 31 of the calendar year in which it was made (no extensions permitted). It's advisable to make the donation as early in the year as possible, since custodians are frequently busy processing end-of-year requests in December.

Mr. Sloane is a writer in New York. He can be reached at reports@wsj.com.

Appeared in the July 5, 2022, print edition as 'Tax Issues When Giving To Charity From an IRA'.

Next in Journal Reports: Personal Investing
