

Charitable Tax Reductions aka Qualified Charitable Donations

Don't you love that you can support your favorite Bay Area Older Adults programs and your local community, then when tax season rolls around, you also get to add the charitable donation to your itemized deductions for your Federal taxes? Have you heard that the standard deduction increased so unless you have itemized deductions of more than \$13,850 for individuals, \$20,800 for heads of household and \$27,700 for married couples filing jointly and surviving spouses (2024 numbers) and for age 65+, you can claim an extra standard deduction of \$1500 per person, so there is no tax benefit to making charitable donations? We are here to tell you about other ways to keep on making charitable donations and still get a financial benefit. They are charitable tax **reductions** instead of tax deductions.

Donate Through Your Required Minimum Distribution: If you have reached the Required Minimum Distribution (RMD) age of 70 ½ years, using a Qualified Charitable Distribution (QCD) is a tax-savvy strategy that allows you to transfer up to \$100,000 of taxable income per year from your IRA directly to a qualified charity. Any amount processed as a QCD before December 31 counts toward your RMD requirement for the current year and reduces the taxable amount of your IRA distribution. This lowers both your adjusted gross income and taxable income, resulting in a lower overall tax liability. Many IRAs are eligible for QCDs including Traditional, Rollover, Inherited, SEP (inactive plans only), and SIMPLE (inactive plans only) and rare instances when a Roth IRA distribution is taxable (the five year rule has not been satisfied and the distribution is of IRA growth). Please note that since the QCD amount is not taxed, you may not then also claim the distribution as a charitable tax deduction.

Tax-Savings Example: A 71-year-old couple filing jointly, who have an annual RMD between the two of them of \$24,000, can instead direct \$10,000 to charity as a QCD, so it will reduce their taxable income to \$14,000 AND they still get to claim the same \$27,700 + \$3000 standard deduction. In this case, if the couple is in the new 24% tax bracket, by using this strategy, they would save \$2,400 (10,000 * 24%) in federal taxes alone — and potentially more in state tax savings. As you can see, there is good reason to perform a QCD if you plan to take the standard deduction.

Don't inadvertently miss out on a QCD. Identify how you want to take advantage of the QCD before processing the RMD and have the IRA custodian send the QCD check directly to the charity.

Tax Return Considerations for QCDs: Currently, your IRA custodian is not required to specially identify the QCD on your annual 1099-R form so you are responsible for informing your tax preparer that you performed a QCD.

If you have any questions or need help with designating BAO for a QCD, please do not hesitate to contact us by phone (408) 774-0593 or email share@bayareaolderadults.org



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