

Nontaxable IRA Transfers to Eligible Charities Made Permanent

On December 18th, President Obama signed into law legislation that includes a permanent extension of the qualified charitable distribution (QCD) sometimes referred to as IRA Charitable Rollover. Previously, these rules did not apply to distributions made after December 31, 2014.

NEW LAW

The Act permanently extends the ability of individuals to exclude qualified charitable distributions (QCDs) taken from IRAs, up to \$100,000 per year, from their gross income. An individual qualifies for this exclusion if they are at least 70½ years of age and these distributions are transferred directly from their IRA to a qualified charity.

THE RENEWAL IS RETROACTIVE FOR ALL OF 2015

For those who had completed a QCD earlier this year in anticipation that the rules would be reinstated, this outcome ensures that they will receive favorable treatment. However, any taxpayers who have already taken their Required Minimum Distribution (RMD) for 2015, and did not transfer it directly to a charity, will not be able to “fix” their RMD to complete a QCD at this time. It is not permitted to put funds “back” in the IRA or to simply take the proceeds of an RMD, once an individual has received it, and then contribute those funds to a charity. To qualify as a QCD, the distribution must have been done directly from the IRA to a charity. Otherwise, these taxpayers will simply report taxable income and receive a normal charitable deduction that will, one hopes, mostly offset the tax impact of the RMD.

If you are not familiar with the allowable deduction for a contribution made directly from an IRA, below are some highlights:

- Donor must be age 70½ or older
- Must be from an owner’s or inherited IRA
- Only IRAs (other than ongoing employer SEP and/or SIMPLE IRAs)—not 401(k)s, 403(b) or other pensions plans
- \$100,000 maximum per taxpayer per year
- Not subject to charitable contribution percentage limits because not included in gross income
- Cannot be claimed as a deduction on tax return
- Direct to qualified charity:
 - Public charity (but not donor advised funds or supporting organizations)
 - Private operating foundations

