

Qualified Charitable Distributions

Benefit: Individuals over age 70 ½ are able to donate up to \$100,000 of their IRAs annually to charity without having to report the withdrawal as income.

The Client: James and Lucy Armstrong are both 79-years old. James has a \$500,000 IRA. Lucy has a \$150,000 IRA. They jointly own \$400,000 in non-qualified stock holdings and several apartment buildings. Their adjusted gross income is \$190,000. It consists of James' pension, Lucy's smaller pension, apartment rents, and social security payments. They stated that they have more income than they need. They especially dislike the IRS mandated Required Minimum Distributions (RMDs) they are forced to take from their IRAs.

“We simply don't need the money,” said Mrs. Armstrong.

The Armstrongs would like to donate \$250,000 to their alma mater, the University of California (*or other local university*). They asked that \$250,000 of their non-qualified stocks be sold so they can write a check to the university.

The Problem: After learning of the tax implications of their plan, the Armstrongs feel that they are being punished for giving to charity.

If the Armstrong's original intent was carried out, they will incur capital gains taxes on the sale of the stock. The stocks have been purchased over several decades and have substantial capital gains. They believed the taxes would be off-set by the charitable deduction that they will receive. They were wrong.

The Armstrongs were unaware of several limits to the tax deductibility of charitable giving. First, when their adjusted gross income (AGI) reached \$159,950, their charitable giving – and all other itemized deductions – started to be phased out. The Armstrong's are already over that amount and the sale of the stock will increase their AGI and further reduce their itemized deductions. Second, the IRS limits charitable giving to 50% of a person's AGI. In this case, the IRS will also limit their total deduction for that year to 50% of their AGI, or \$195,000.

Using worksheet 2 in IRA Publication 526, we illustrate the tax implications

Cash Donation: \$250,000

New Adjusted Gross Income: \$390,000 (\$190,000 from regular income sources + \$200,000 in capital gains)

Charitable Deduction: \$195,000 (AGI x 50%)

Capital Gains Tax on Sale of stock: \$30,000 (\$200,000 x 15%)

University. This will not