HOW CLIENTS CAN REDUCE TAX BURDENS WHILE HELPING OTHERS

For philanthropic clients with limited itemized tax deductions, a qualified charitable distribution (QCD) strategy could reduce taxable income.

It's been a chaotic year, and rising inflation has blunted both the amount and impact of many clients' charitable donations.[1] That doesn't mean they've lost the will to give; in fact, the reality is quite the opposite. Charitable clients tend to be most concerned about maximizing the impact of their donations. But do they know that their gifts can affect more than their chosen charities?

Understanding and effectively communicating the potential tax implications of QCDs can help clients make educated decisions about their charitable giving this year—for both the charities and themselves.

What Is a QCD?

The Tax Cuts and Jobs Act of 2017 limited many clients' itemized tax deductions, which can now only include state and local tax (SALT), medical expenses that exceed the floor of their adjusted gross income (AGI), deductible mortgage interest, and charitable contributions. For those whose only options are SALT and charitable contribution deductions, a QCD strategy could be a way to ease tax burdens while benefiting the causes your clients care about most.

Owners of IRAs, inherited IRAs, inactive SEP-IRAs, and SIMPLE IRAs can contribute up to $100,000 per year to one or more qualified charities of their choice. A client age 72 or older who must take required minimum distributions (RMDs) can choose to gift all or part of the RMD as a QCD (up to the maximum). Be sure to remind such clients that RMDs must be distributed from their retirement accounts first. If QCDs are not the first distributions of the year, they may not qualify.

Additionally, qualified charities must be approved by the IRS and generally include 501(c)(3) organizations and places of worship. Donor-advised funds and private organizations, on the other hand, do not count as qualified charities. If clients are uncertain, the IRS offers a searchable database of all qualified charities.

What Should Clients Consider Before Choosing a QCD?

With a QCD, clients will never handle the distributions themselves. Instead, their IRA custodians will write a check directly to the qualified charity, and the charity will provide necessary tax documentation.

On the subject of taxes, QCDs do not require any unique reporting processes on IRS Form 1099-R. It should be reported as a normal distribution (code 7) for traditional, Roth, and SIMPLE IRAs as well as SEP-IRA plans. For inherited IRAs and Roth IRAs, QCDs should be reported as death distributions (code 4).

[1] https://www.wealthmanagement.com/philanthropy/how-inflation-affecting-charitable-giving

Discuss QCDs in Your Next Tax Review

Midyear tax checkups are the perfect time to start the QCD conversation with clients. Research shows that about 90% of high-net-worth clients give annually,[2] so many already may be open to the potential benefits of spending down RMDs and reducing tax burdens by giving directly from retirement accounts.

Even if you have limited experience in the area of charitable giving, having these conversations early can help you deepen bonds with clients, especially those who are already philanthropically active. Of course, clients should consult with their accounting or tax professionals for guidance regarding their specific circumstances, but you can provide valuable insight into the possibilities QCDs present. Reach out to your clients to start the conversation.

Additional Resources and Links

Retirement Income Strategies

A Protected Approach to Retirement

Build Your Practice with the "Lifetime Income Conversation"

For more information about protected income strategies, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.
PacificLife.com

[2]https://www.thinkadvisor.com/2022/09/06/5-steps-for-advisors-to-get-started-with-charitable-planning

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