MAKING A SOCIAL IMPACT WITH QUALIFIED CHARITABLE DISTRIBUTIONS

Required minimum distributions (RMDs) from Individual Retirement Accounts (IRAs) are an unpleasant fact of life for many individuals who do not need the income from their IRAs and wish to extend the tax-deferred growth opportunity in the IRA. RMDs are included in adjusted gross income and may cause taxpayers to move into a higher tax bracket. This can have an adverse impact on taxation of Social Security payments and may increase Medicare premiums. It's also something else to remember at the end of each year, and forgetting comes with significant IRS monetary penalties. But for individuals who are charitably inclined and wish to make a social impact, there may be a solution.

In 2015, Congress made permanent Qualified Charitable Distributions (QCDs). QCDs are distributions made directly from an IRA to a public charity. Distributions can't go to private foundations or donor-advised funds—public charities only. In this manner, the distribution is ***not*** counted as taxable income, but yet the distribution will satisfy some or all of the RMD for that year. Since the QCD is not included in taxable income, no charitable income tax deduction is necessary, and there will also be no impact on the tax bracket, taxation of Social Security benefits or Medicare premiums.

Given the impact RMDs can have on one's tax bill, it's worth creating a long-term charitable giving and income tax planning strategy around this rule.

QCDs are capped at $100,000 annually, per person. Married couples who are each 70 ½ years could gift a total of $200,000 to a charity. However, each individual must make the QCD from their own accounts. The age limit here applies to the exact date on which the IRA owner turns 70½ years old. For example, if an IRA owner turns 70 on February 15, he or she cannot make a QCD until August 15. The SECURE Act ("Setting Every Community Up for Retirement Enhancement Act of 2019"), passed on December 20, 2019, increased the age at which IRA owners must begin RMDs to 72 years. However, Congress left intact the age for QCDs at 70½ years, creating a unique 1 ½ year window in which IRA distributions qualify as charitable contributions, but not as RMDs.

As you can see, one of the biggest advantages of QCDs is the ability for individuals to satisfy some or all of their RMDs without affecting adjusted gross income.

For an even larger social impact, in some cases the charity can use the cash to purchase a single premium life insurance policy on the donor's life, or the donor can pledge to make a similar QCD for a number of years to fund a limited pay life insurance policy. Each of these strategies may provide an increase in the charitable contribution in the form of a death benefit that will occur in later years.

Here's how it might look for a male or female aged 70 ½ years who each donate $100,000 through a QCD, depending upon policy choice, design and underwriting factors. The charity can use that $100,000 either in a lump sum or spread over five years (or some other length of time) to purchase a whole life insurance policy on them.

Age	Male – Single Premium		Male – 5-Pay		Female – Single Premium		Female – 5-Pay	
	Cash Values	**Death Benefit**	**Cash Values**	**Death Benefit**	**Cash Values**	**Death Benefit**	**Cash Values**	**Death Benefit**
71	$90,162	$257,146	$18,547	$132,327	$91,615	$272,981	$19,917	$137,607
75	$96,875	$229,539	$95,247	$226,995	$102,547	$251,451	$100,357	$247,777
80	$114,059	$210,426	$111,997	$207,565	$124,917	$237,910	$122,117	$233,803
85	$130,654	$198,788	$128,061	$195,538	$150,141	$232,639	$146,605	$228,011
90	$146,574	$192,737	$143,371	$189,014	$176,224	$233,916	$171,829	$228,658
95	$159,312	$189,553	$155,429	$185,275	$202,854	$239,127	$197,483	$233,146

**This example assumes that dividends are used to purchase paid-up additional insurance during the charity's premium-paying years, and thereafter, premiums will be paid by dividends, the surrender of paid-up additional insurance, or policy loans, rather than cash. This premium payment technique is often referred to as a non-guaranteed Premium Offset. Non-guaranteed surrender values and death benefits may be greater than guaranteed values.*

Note that the above illustrations are hypothetical and are not intended to serve as a projection of any specific life insurance policy. The material presented should not be interpreted as a recommendation.

Another item to note is that any deductible contributions to the IRA will offset some of the tax benefits of a QCD for that year. Please consult with your tax advisor.

Contact your local Security Mutual life insurance advisor today to determine if the QCD strategy is appropriate for your circumstances and to coordinate your financial plans and help achieve your goals and objectives.

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