Advisors are getting pelted with QCD questions — and so am I

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Here we go again. It's the year-end rush to get IRA transactions in and have them count for 2018.

Each year, some clients leave required minimum distributions until the last minute, hoping the advisor will somehow get them done before the year closes.

And now, as the year comes to an end, we have a new last-minute IRA tax issue: qualified charitable distributions, known as QCDs, which are direct transfers from IRAs to charities.

While QCDs are not new, the impact of the new tax rules is. As most taxpayers will be using the new, larger standard deductions and not itemizing, they will no longer be able to deduct their charitable contributions from their income.

But those who qualify for QCDs can get both the larger standard deduction and the tax benefit of giving to charity. The QCD is available only to IRA owners and IRA beneficiaries who are age 70½ or older — the same group that is generally subject to required minimum distributions of their IRAs.

The QCD allows them to make charitable donations through direct transfers from their IRAs to the charity. The IRA transfer is excluded from income, which is similar to a tax deduction but even better. Excluding the IRA income decreases adjusted gross income, whereas an itemized deduction only decreases taxable income.

"A QCD cannot be done from a 401(k) or 403(b), only from an IRA."

The net effect of doing the QCD is that the client ends up with both the larger standard deduction of $24,000 when filing jointly or $12,000 when filing single, plus there is the extra standard deduction for those who are over age 65 — or blind — of $1,600 single, or $1,300 each for a married couple filing jointly. The client also gets to exclude the IRA distribution given to charity from income.

In addition, the QCD counts toward satisfying any RMD not yet withdrawn, lowering the tax bill on that RMD. That's where the big tax savings comes in.

These last-minute questions I'm receiving from frenzied advisors demonstrates some of the uncertainties.

Q. What if a client does a QCD in the last week of the year and the charity does not cash the check until next year? Will it still count as a QCD for 2018?

A. First, we need to be clear that there are two different tax-reporting scenarios for two distinct QCD options:

1. **IRA CHECK ISSUED BY THE CUSTODIAN** – This is the most common. Here, the IRA custodian either sends a check directly from the client's IRA to the charity or gives the client checks (from the IRA) to the charities the client has named. The check must be made out to the charity, not the client, to qualify as a direct transfer.

In this case, the minute the custodian issues the check from the client's IRA, it's a distribution, regardless of when the charity cashes the check. It is debited immediately and the 1099-R is issued as a current-year distribution.

2. **IRA CHECKBOOK CHECK** – Here, the IRA custodian provides the client with an IRA checkbook where the client can write the checks to the chosen charities.

This is very different than the first option, because the IRA custodian has no control or knowledge of any IRA checks written until they are cashed. They don't have this checkbook, so how could they know? So, if an IRA checkbook check is given to a charity this year, but the charity does not cash this check until next year, then the distribution and 1099-R will be reported next year by the IRA custodian. If your client is using this option, advise them to make sure this check is cashed immediately by the charity — before year-end, or the QCD option will be lost for this year.

"This year's last-minute rush on tax matters is compounded by the impact of new rules."

This seems to create another tax issue, since it goes against the tax rules for making regular contributions — where once a check is given to the charity, it is deductible that year, even if the charity doesn't cash until next year.

If this happens with a QCD, though, the QCD option for this year would be lost, as no distribution would be reported until next year, even though a regular charitable tax deduction (as an itemized deduction) would be available this year. If the client is not itemizing, which is likely due to the increased standard deduction, then both the tax deduction and the QCD are lost.

Q. Can the QCD be done from a company plan, like a 401(k) or 403(b)?

A. No. QCDs are only available from IRAs.

Q. Can the client do a rollover from a 401(k) to their IRA before year- end, and then once the funds are in the IRA, do the QCD from the IRA.

A. Yes, but if the client is subject to RMDs from the plan (which is likely, unless a client qualifies for the "still working" exception in that plan), then that RMD must first be taken from the company plan. The RMD cannot be rolled over to an IRA. Once the plan RMD is satisfied, then

the balance of the 401(k) can be rolled over to the IRA (if it is eligible for rollover under the company plan rules). Once the funds are in the IRA, then yes, the QCD option is available.

Q. If the client already took the IRA RMD for the year, can a QCD offset that RMD income?

A. No. The RMD amount will be taxable, but a QCD can still be done for amounts in excess of the RMD (up to an annual limit of $100,000 per person), and that QCD will be excluded from income.

Q. If the client has enough deductions to itemize, even under the new law restrictions, does it still pay to do the QCD?

A. Yes, the QCD is still better tax-wise, since it will lower your client's AGI. That produces a better tax result than an itemized deduction that can only lower taxable income. In fact, the QCD might allow more medical expenses to be deductible as an itemized deduction since the QCD lowers AGI and thus the threshold ahove which medical deduction can be made.

Q. Do Donor-Advised Funds qualify for QCDs?

A. No. They are specifically excluded by law, and so are private family foundations.

Q. Must an IRA beneficiary also be age 70½ or older?

A. Yes.

Good luck!

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