

Save Taxes by Rolling Your Required Minimum Distributions Over To a Church or Charity

By Attorney Michael Goss

If you're 70 ½ or older and have a 401k or Individual Retirement Account (IRA), you probably know you have to withdraw some of that money each year. The IRS wants you to take money out of those accounts so the funds can be taxed.

If you don't take those "required minimum distributions" (RMD's), you may owe a penalty equal to 50 percent of the amount you failed to withdraw!

What if you don't really need any money from your retirement account, and you don't want to pay taxes on money you don't need?

The answer is an IRA Charitable Rollover. Here's how it works.

Suppose your required minimum distribution for the year is \$5,000. You have enough income each month from Social Security and a pension, so that you don't really need that \$5,000. Since you can't leave it in your IRA, you roll the \$5,000 over to a church or charity that you care about. They get a nice donation, you satisfy the IRS, and nobody owes any tax on the \$5,000.

With the rollover, money goes directly from your IRA to the church or charity. If the rollover is done correctly, that money is not counted as part of your taxable income for the year.

Unfortunately, you can't use this technique to take RMD's from a 401k. It only works with an IRA. And there are no required minimum distributions from a Roth IRA, so you don't need to use this strategy with a Roth account.

Here are some things to keep in mind:

- You can roll some, or all, of your required minimum distribution over to a church or charity.
- The church or charity must be a "qualified charity" as defined by the Internal Revenue Service.
- An IRA Charitable Rollover is different than taking a check for your required minimum distribution, then donating that money to charity. If you withdraw the funds *then* donate

the money, the withdrawal becomes part of your taxable income for the year. You might be able to take a deduction for your charitable contribution, but the tax savings may be less than if you did a rollover.

- If you routinely give to a church or charity during the year, you may want to do an IRA Charitable Rollover instead. The church or charity gets the same amount of money, but you owe less in taxes. That's because the money you put in an offering plate or send to your favorite charity by check may provide a tax *deduction*, but the rollover reduces your *total taxable income* for the year.
- Because an IRA Charitable Rollover reduces your taxable income for the year, it might also reduce your Medicare Part B premiums and the taxability of your Social Security income.
- IRA Charitable Rollovers cannot go to a “donor advised fund” – a charitable account where you have the authority to decide how the money is used.

With an IRA Charitable Rollover, you can meet IRS requirements, contribute to a worthy cause and lower your tax bill all at the same time. It's a great tool, but it only works if you don't *need* the money you're withdrawing from your IRA. And when considering a charitable gift, you should also take your tax, income and estate planning goals into consideration.

Talk to an expert to see if an IRA Charitable Rollover is right for you. The Putnam County Community Foundation (765-653-4978) can also provide helpful information.

This overview is provided as a public service, not as legal, financial or tax advice to any specific individual. Be sure to speak to a qualified attorney, financial adviser or tax specialist who can answer your questions, analyze your goals, and give personalized advice.

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