Revisiting the *Qualified Charitable Distribution*

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In last month's issue of *The Estates*, I discussed the recently passed Consolidated Appropriations Act of 2016 which made the Qualified Charitable Distribution strategy permanent.

It is not surprising a number of articles have been written to explore this strategy in greater detail. Nor should it be surprising to be reminded of other giving strategies that may be more appropriate than the QCD.

To review, the QCD allows age 70 ½ and older IRA account holders to make their required minimum distribution (RMD) payable directly to a qualified charity without treating the distribution as taxable income. The distribution must be directly transferred by the IRA custodian to the charity and not as a reimbursement to the IRA owner for gifts previously made. The tax features of the QCD, as opposed to taking the RMD in hand first and then making a charitable gift are:

1. The QCD excludes the IRA income thus lowering the AGI which in turn may avoid the phase-out of itemized deductions and the 3.8% Medicare tax on investment income.

2. It could be easier to deduct expenses subject to AGI floors like medical expenses.

3. Taxpayers may use the QCD to exclude an IRA withdrawal from income, the same benefit as deducting the donation, alternately a feature that may not be realized if a standard deduction is claimed rather than itemizing, or the donations exceeds the cap on charitable deductions.

4. May lower income taxes on Social Security benefits.

In an article written by Tim Steffen, "Qualified charitable distributions not always the best way to give," investmentnews.com, he boldly states that "while a QCD can provide a real tax benefit to some IRA owners, in most cases keeping the RMD and giving appreciated securities to charity will be a better tax strategy."

While I don't agree with his contention that it is a better strategy "in most cases," I agree there is relevance to the specific example he provided, that being, "if someone owns a low basis stock worth as much as the RMD that must be drawn from their IRA, by transferring the RMD directly to the charity, the stock holder holds the stock and its looming tax liability." As a potential solution, he offers, "By keeping the RMD and donating the stock instead, the taxpayer avoids both the tax on the RMD and the capital gain on the stock."

This may be an appropriate strategy for someone who wants or needs to sell a stock, but if the stock holder likes the stock, is intent on holding on to the stock, and may do so until death, the stock would automatically receive a step up in basis for the heir, thereby eliminating the capital gain and the tax consequence Mr. Steffen is trying to avoid in his example. If this is the case, the QCD strategy may still be the best option.

As always, a collaborative effort between the client and his/her wealth management team of advisor and tax professionals is recommended to determine what is in the best course of action.

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