Taking Your Required Minimum Distribution

By Richard F. Roth

If you are age 70-1/2 or older, taking the required minimum distribution and making charitable contributions, then you may be able to reduce your taxes by making your charitable contribution from your IRA instead of taking your required minimum distribution. Here is how it works:

1. First, the required minimum distribution is the amount you must withdraw each year from your IRA, 401(k) or 403(b) once you turn 70-1/2 years old. The required minimum distribution is taxable under federal and state laws.

2. Currently, a married couple over the age of 65 is entitled to a standard deduction in the amount of $26,600 (compared to $24,000 for "younger" married couples). This means that you are able to reduce your taxable income by $26,600 for no reason whatsoever (unless you itemize your taxes). *For illustrative purpose only*, if you make charitable contributions in the amount of $26,600 and if you have no other deductions, your taxable income will not be reduced for your charitable contributions. This is because you are already entitled to the deduction of $26,600 regardless of whether you made any charitable contributions. Although it is highly commendable that you made the charitable gifts, you did not save one penny!

3. On the other hand, if you make the charitable contribution of $26,600 from your IRA, you will still have the standard deduction of $26,600; in addition, you will not have to take your required minimum distribution up to $26,600. As a result, your taxable income will be reduced by the amount of $26,600 (the amount you did not take as a distribution) and, accordingly, your taxes will be reduced. You will save 4.4% on your State of Michigan taxes. Quite possibly, you may be in a lower tax bracket which provides other tax benefits.

4. It should be noted that the charitable gift must qualify to be excluded from your income (a Qualified Charitable Distribution). The qualifications are: (a) you must be age 70-1/2 or older; (b) the Qualified Charitable Distribution must come from an IRA – not a 401(k) or 403(b) plan; and (c) the IRA custodian must make the distribution to the charity outright or give you a check made out to the charity. It cannot be paid to a philanthropic fund.

5. As stated in paragraph 4 above, the charitable gift must be made from your IRA. Therefore, if you have money in a 401(k) or a 403(b) plan, you can roll it over this year to your IRA as long as you make your required minimum distribution from your 401(k) or 403(b) plan. Then, next year, you can use your IRA for charitable gifts and reduce your required minimum distribution for that year.

6. It should be noted that the maximum you can donate to a charity is $100,000 a year.

In conclusion, you should consider using the required minimum distribution from your IRA to make charitable contributions. You might save thousands of dollars in taxes.