QUALIFIED CHARITABLE DISTRIBUTION

GOD POWERED

Qualified Charitable Distributions

Kingdom strategies have the benefit of being a blessing to everyone involved. This particular strategy is often misunderstood, underutilized, and unfortunately frequently done incorrectly.

Where it fits, it has the potential to be a tremendous benefit for a number of retirees and the organizations they care for; the ministries, non-profits, and the charities that they want to support.

One of the most significant benefits of retirement accounts in the United States is tax deferral. Tax on the assets, and the growth on those assets is deferred until a later date, which can create an acceleration effect.

The deferred taxes can remain invested and produce its own growth. The compounding effect means that the tax dollars are creating wealth while they remain invested.

Obviously there comes a point when the government wants to begin to collect those tax dollars. Which leads us to the Required Minimum Distribution (RMD).

RMD rules are complicated and continuously changing (as noted below consult with a licensed professional to confirm individual requirements) and failure to meet those requirements triggers significant penalties.

In simple terms at 73 (at the time of this publication) one must begin drawing at least the minimum amount calculated on a combination of life expectancy and the asset value.

Funds drawn are now taxed and in theory over the course of one’s lifetime the government would now collect those deferred taxes.

A common assumption is that retirees want to draw the maximum amount that would support their lifestyles but still give a degree of security regarding future income. Frequently though for various reasons, such as other income/asset sources, they would prefer to minimize or avoid the tax burden completely.

Here is how the Qualified Charitable Distribution works:

Individuals over 70 ½ (at time of this publication), can make distributions from their retirement account directly to the ministry or non-profit of their choice. Done correctly that distribution/contribution counts towards their required distribution and eliminates the taxes on that distribution.

It can be a portion or all of their requirement up to a maximum of $100,000 annually.

Requirements:

The receiving organization must be a registered 501(c)(3). Which means it cannot go directly to an overseas ministry. Nor can it go to a family’s Donor Advised Fund or most foundations.

Process:

The common mistake is to draw the funds and submit a check to the organization. This produces both a tax bill and generally a tax deduction. Without getting into the nuances of tax accounting, these two issues don't offset, leaving a taxable amount.

The correct way is for the retiree/donor to contact the administrator of their retirement account and instructing them to make a direct distribution to their preferred ministry or non-profit. There is usually documentation to sign, and then the funds go directly to the receiving organization. The donor never receives the funds.

This process both meets the IRS requirements for the distribution while eliminating taxable events. Providing both a benefit to the donor and a blessing to the ministry or non-profit.

Note: As with all sophisticated strategies, especially those with potential tax consequences, always consult with a qualified tax professional before implementing a strategy.

*This strategy only applies in the United States