Sending RMDs Directly to Charities - Edwin Cox, TTMADRS Treasurer - 1/4/2022

There used to be a strong incentive for making contributions to charities. Those donations could be included in your itemized deductions, thereby reducing your taxable income. For those in upper tax brackets, this allowed the government, in effect, to pay as much as half of your charitable donations. Even those in lower brackets enjoyed seeing the U.S. Treasury contributing something to their favorite charities.

But the new tax law passed in 2018 raised the standard deduction to a level that most people would no longer see an advantage to taking itemized deductions. This fact has dampened enthusiasm for making charitable contributions. It's especially galling to those who want to make contributions from their qualified retirement plans, funded with pre-tax dollars. Those funds add to your taxable income when you withdraw them to make a contribution. If you cannot then take them as an itemized deduction, they add to your tax burden even as you are using them in an altruistic cause.

It happens that there is a provision that gets around this problem for some of us over age 72½ who are mandated to take distributions. The IRS's Required Minimum Distribution (RMD) applies to several "qualified retirement plans". In the case of one plan, the traditional IRA, the distribution of your RMD can be **disbursed directly to a charity, and if so done, may be excluded from your taxable income**. In order for this to be accomplished, you must request this specifically from the trustee of your account. If *you* receive the distribution and then make a contribution to the charity, the distribution *is* taxable. A desirable side effect of lowering your taxable income from retirement distributions is that it feeds back to lower the percentage of your social security that is taxable, further lowering your tax burden.

Also, be aware, the exclusion from taxable income only applies to the amount you are required to take, not to any additional amount in excess of the RMD that you voluntarily contribute to the charity.

As just mentioned, currently, only distributions from IRAs are allowed to benefit in this manner from direct distribution to charities. However, it's possible to convert other qualified plans into IRAs, from which you can then make tax-advantaged RMDs. Such qualified retirement plans include 403(b) and 457(b) accounts. The best-known example of a 403(b) is TIAA-CREF, the retirement plan for people working in educational institutions. 457(b) accounts are typically programs set up for workers in state and local governments. Our household had one each of these two latter types, but we were not aware of their designations - 403(b) and 457(b) - until we took the time to research the matter and get better informed.

The important point to know is that these accounts can be converted from one to another without a taxable event. In particular, 403(b) and 457(b) accounts can be "rolled over" into IRAs, so that their RMDs can be directly contributed to charities. It is important to do the rollover in a very specific way, in order to avoid paying tax. Here's an example. I want my TIAA-CREF 403(b) to be rolled into a traditional IRA at Fidelity Investments. It could be an existing IRA, or if not, I set up a new one. I file a request with Fidelity for them to obtain the assets of the 403(b), giving them the account number at TIAA-CREF, and signing an authorization. Fidelity takes care of the rest.

You should avoid having a non-IRA distribution sent to you, then depositing it in your IRA. While that might work if it is allowed and the timing is perfect, it runs the risk that you might have to file additional information with the IRS to validate the transfer, or that you might miss the 60-day window for completing the rollover, or hit some other snag.

The other consideration is that you must have already taken your RMD for the year in which you are making the rollover before you initiate the rollover. Think ahead. If you want to start taking advantage of the provision to exclude your RMD from a non-IRA from taxable income by rolling it into an IRA, start the process well before the end of the year. These things take time. It will only be in following years that you get the benefit of the exclusion.

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