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## Direct charitable gifts from an IRA

A “charitable IRA rollover” is still available to those who have reached age 70½. Up to \$100,000 may be transferred directly by the IRA custodian to the charity. When handled properly, there are two favorable tax consequences: The gift is not included in the donor’s taxable income, but it does count toward satisfying his or her required minimum distribution (RMD) for the year. (The RMD rule doesn’t kick in until the owner is 72, but the charitable IRA rollover rule still uses the 70½ age.) Many retirees simply have directed their RMDs to charity.

The income tax exclusion for a transfer to charity from an IRA might not seem like such a big deal. After all, one always has been allowed to follow an IRA withdrawal by a charitable contribution and claim an income tax deduction. But it is a big deal, because the full benefit of that deduction is not available to all taxpayers.

- **Nonitemizers.** Only an estimated 10% of all taxpayers still itemize their deductions. Retirees typically have lower incomes, and so are more likely to be using the standard deduction.
- **Big donors.** Percentage limits on the charitable deduction mean that some donors can’t take a full charitable deduction in the year that they make a gift. They can carry the deduction forward to future years, but the charitable IRA rollover is much better. There are no percentage limits (just the \$100,000 cap), and the excluded amount is not aggregated with other charitable gifts for the year in determining whether the percentage cap has been breached.
- **Social Security recipients.** An increase in taxable income may cause an increase in the tax on Social Security benefits for some taxpayers. The direct gift from an IRA avoids this problem.

Watch out!

A few caveats to keep in mind.

- The donor may not receive anything of value in exchange for the gift from the IRA. If something of value—even as little as \$25—is received, the entire exclusion from income is lost.
- The gift must happen after the donor has reached age 70½, and not merely be made during the year the donor reaches that age.
- The exclusion is only available for direct charitable gifts from traditional and Roth IRAs, not from other tax-qualified retirement plans.
- Married couples may exclude up to \$200,000 for direct gifts, but only if each spouse has an IRA as the source of the donation.
- Inherited IRAs may have RMDs for younger taxpayers. They don’t get the benefit of this charitable transfer rule. A charitable rollover may be made from an inherited IRA, but only if the beneficiary has reached age 70½.

Be sure to consult with your tax advisors before making any decisions that you might not be able to reverse.

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