

The Advantages of a Tax-Free Transfer From an IRA to Charity

Besides benefiting the charity, you may save a bundle on income taxes, as well as stay below the income cutoff for some other taxes and charges.

Q: I'm 70 ½ and need to start taking required minimum distributions from my retirement accounts. I know I can make a tax-free transfer from my IRA to charity and have that count as my RMD. But what's the advantage of doing that versus withdrawing the money and making a charitable donation on my own? Assuming I itemize deductions, doesn't it have the same effect?

A: If you itemize, the tax deduction looks the same—at first blush. But because the transfer, called a qualified charitable distribution, keeps your required minimum distribution out of your adjusted gross income, it can help you stay below the income cutoff for some other taxes and charges. (For people who don't itemize their deductions, making the tax-free transfer can help them benefit from their charitable gift.)

If you have to take large RMDs from your retirement savings, you could be pushed into a higher premium level for Medicare, but making a tax-free transfer of that RMD to charity keeps that money out of the calculation for Medicare premiums. If your adjusted gross income plus tax-exempt interest income is above \$85,000 if you're single or \$170,000 if married filing jointly, you'll have to pay higher Medicare Part B premiums. Rather than premiums of about \$109 per month for most people who have their premiums deducted from their Social Security payments, or \$134 for new Medicare enrollees, people who are subject to the high-income surcharge have to pay from \$187.50 to \$428.60 per month for Medicare Part B in 2017, depending on their income, plus an extra \$13.30 to \$76.20 added to their premiums for their Part D prescription-drug coverage. See *Retirees to Pay More for Medicare in 2017* for more information about the high-income surcharge.

Keeping your AGI lower could also help you lower taxes on your Social Security benefits. If your "provisional income" is below \$25,000 and you file taxes as single or head of household, or less than \$32,000 if you file a joint return, you won't owe taxes on your Social Security benefits. If your provisional income is between \$25,000 and \$34,000 if you're single, or between \$32,000 and \$44,000 if married filing jointly, up to 50% of your benefits may be taxable. If your provisional income is more than \$34,000 if single or more than \$44,000 if married filing jointly, up to 85% of your Social Security benefits may be taxable. Provisional income is defined as your adjusted gross income, not counting Social Security benefits, plus nontaxable interest and half of your Social Security benefits. Keeping your required minimum distribution out of your AGI can help reduce your provisional income. For more information, see *5 Ways to Avoid Taxes on Your Social Security Benefits*.

If you're over 70 ½, you can transfer up to \$100,000 tax-free from your IRA to a charity each year. The money must be transferred directly from your IRA to the charity to stay out of your AGI