Jewish Federation OF NORTHEASTERN NEW YORK | The Jewish Community Endowment Fund

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Recent changes in federal law may impact your decision whether to make distributions from your IRA this year.

Tax Law Changes

The SECURE Act, which became law effective January 1, increased the beginning age for Required Minimum Distributions (RMDs) from IRAs and other qualified retirement plans from 70 ½ to 72 for individuals that had not reached age 70 ½ by December 31, 2019.

The CARES Act, which became law in March, waived RMDs in calendar year 2020. Ordinarily, you have until April 1 of the year following the year in which you reach the beginning age to take your first RMD. You would have an RMD for the year in which you reach the beginning age and another RMD for the following year. If, for example, you reached 70 ½ in 2019, you could have taken your 2019 RMD in 2019, or you could have waited until April 1, 2020. Either way, you would have been required to take your 2020 RMD by December 31, 2020. The CARES Act waives both RMDs.

While the SECURE Act changed the minimum age for RMDs, it did not change the minimum age for Qualified Charitable Distributions (QCDs). If you are age 70½ or older, you are still eligible to make QCDs.

With a QCD, you may give as much as $100,000 per year from your IRA directly to the Federation or other charity. You will not be entitled to a federal charitable income tax deduction, but whereas withdrawals from a traditional IRA are taxable as ordinary income, QCDs are excluded from federal taxable income. QCDs may not be made for deposit into a donor advised fund, and they may not be made to supporting foundations or private non-operating foundations or to establish gifts from which you or another person will receive periodic payments, such as a gift annuity. QCDs can be applied against your annual RMD, when you have one. *Note:* The SECURE Act eliminated the age limit on deductible contributions to IRAs. Now allowable QCDs are subject to reduction for deductible contributions to your IRA after you reach age 70 ½.

You may feel no urgency to withdraw funds from your IRA this year, when there is no RMD. Giving a QCD, however, may be a savvy move if you have large IRA balances.

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QCD Strategies for 2020

1. **Lower future RMDs.** Recent volatility in the financial markets may have taken a toll on your IRA account balances, but if IRAs recover, as we hope they will do, higher balances will mean higher RMDs, and they, in turn, will mean higher taxes. QCDs that you make now will help you lower RMDs in the future.

2. **For non-itemizers.** The standardized deduction increased considerably in 2017. If you do not itemize, QCDs may be particularly valuable to you. QCDs are excluded from income, so they will not impact Medicare Part B or D premiums that are based on your adjusted gross income (AGI) or other itemized deductions with AGI-based limits. *Note*: State income tax considerations could impact your QCD decision, particularly if you pay tax in a state in which QCDs are included in taxable income.
If you make a QCD, you can still elect to take advantage of a new $300 cash-only above-the-line charitable deduction in 2020, which was created by the CARES Act for non-itemizers. *Note*: This deduction may not be claimed for gifts to donor advised funds or supporting foundations, and joint filers together may claim no more than $300.

3. **Bunching QCDs in 2021.** If you ordinarily make QCDs of less than $100,000 per year, you may choose to delay QCDs that you normally would have made in 2020 until January 2021, after the RMD waiver expires. Then you can make your normal 2021 QCDs later in the year. If you plan to “bunch” your QCDs and defer payment of your 2020 Campaign gift or other commitments to 2021, please let us know to help us in our cash flow planning.

4. **Withdrawal and gift.** You could make charitable gifts with amounts you withdraw from your IRA, using tax deductions to offset the taxable income that withdrawals will generate. These cash contributions could be used to fund donor-advised funds or supporting organizations up to the standard limit of 60 percent of AGI. In 2020, other cash contributions can take your charitable deductions to 100 percent of AGI. Contributions above the applicable AGI limit may be carried forward for five years. *Note:* This strategy may impact AGI-based Medicare premiums and other deduction limits and may not be favorable where state income taxes apply. Be sure to discuss this strategy in advance with your professional tax advisor.

5. **Gift appreciated assets to heirs and leave IRA assets to charity.** The SECURE Act eliminated the “Stretch” IRA for non-spouse inheritors (with limited exceptions). Until passage of the SECURE Act, non-spouse inheritors of IRAs could take distributions over the course of their anticipated life expectancy. Now, most non-spouse inheritors are required to take full distribution within 10 years, which could expose them to a much higher tax bill. If you expect

to have a taxable estate, QCDs that you make now can reduce future estate taxes and preserve non-IRA assets that will not be burdened with income taxes for your heirs.

RMD Corrective Measure
If you made a withdrawal this year before Congress waived the RMD requirement, your withdrawal may be eligible for a tax-free rollover to a plan that accepts rollover contributions, such as a new IRA. Under guidance issued by the IRS, withdrawals taken from February 1 to May 15 must be rolled over by July 15, 2020. Withdrawals that occurred prior to February 1 may not be rolled over under this guidance, because the 60-day tax-free rollover deadline expired prior to April 1. Note: Your professional tax advisor or IRA trustee can sort through the technical rules that apply to rollovers with you.

For more information, contact Deborah Chapman Goldstein, Director of Planned Giving and Endowments at (518) 783-7800 ext. 230 (she will check voice mail and return your call—please leave your phone number) or dgoldstein@jewishfedny.org

This is for informational purposes only and should not be construed as legal, tax or financial advice. When considering gift-planning strategies, you should always consult with your own legal and tax advisors.