This is the time of year for those over age 70½ to manage their required distributions from IRAs and other tax-deferred accounts. Those in that age group who plan to make 2018 charitable donations now have a better way to do that: a permanent federal tax provision allows them to donate to qualified charities directly from their IRA accounts and likely reduce their tax liability.

Here is how it works:

- This provision applies only to those who are 70½ years or older and who have savings in IRAs and other tax-favored investments, like 401(k) and 403(b) accounts.
- These direct gifts from IRAs are known as Qualified Charitable Distributions (QCDs), which have existed for about a decade, but were made a permanent part of the tax code in 2015 (permanent meaning that they won't lapse automatically and don't need to be reinstated on a regular basis, as was the case before).
- When an individual is 70½ or older and has an IRA or other qualified retirement plan, he or she must receive a Required Minimum Distribution (RMD) each year and pay income tax on it. (If such individuals don't withdraw their RMD, the IRS can assess a 50% penalty.)
- Qualified individuals may direct their IRA custodians to send all or part of that RMD (up to $100,000 annually) directly to one or more qualified charities. The otherwise taxable IRA distribution becomes a tax-free gift.
- If their retirement funds are in another type of retirement account, such as a 401(k), they must **first** transfer those funds to an IRA, and that transfer **must** be done before the year of the QCD.

Depending on an individual's tax situation, he or she will likely save more tax through a QCD than a traditional charitable donation. There are several ways this tax law can reduce income taxes. It may:

- Avoid the annual limitation on total deductible charitable donations.
- Enable the use of the standard deduction still effectively deducting the charitable gifts.
- Reduce adjusted gross income, which in turn may (1) reduce tax paid on Social Security income, (2) increase deductions for medical expenses, personal exemptions and/or total itemized deductions, (3) reduce the 3.8% Medicare surtax on other income, and/or (4) reduce the amount deducted from Social Security for Medicare insurance.

Whether or not those benefits are available depends on an individual's particular tax situation. There are few instances in which this way of donating does not yield more tax savings.

The information provided is for general purposes only and does not take into account your individual financial objectives, situation or needs. Before acting on it, please determine whether it is appropriate for you and/or seek advice from your financial, tax and/or legal advisor.