

A Happy New Year for IRA Holders

[By Claire E. Toth, JD, MLT, CFP™](#)

Congress' recently passed budget act has great news for IRA holders taking required minimum distributions—the ability to direct as much as \$100,000 of that distribution to charity has been made permanent. This comes after nine years of on and off legislation, fixes so late in the year few can use them, and many headaches for investors and their advisors.

In fact, this year's fix applies to 2015 as well as to the future. However, it is again so late in the year that most have found other, tax-advantaged way to make charitable gifts.

Starting in 2016, those age 70-1/2 or older who do not need their RMDs to live on should seriously consider using them for charitable giving. There are more tax advantages than meet the eye.

Making a direct charitable gift from your IRA keeps the RMD off of your tax return altogether. It is not included in Gross Income, Adjusted Gross Income, or Modified Adjusted Gross Income. All these terms have multiple tax and financial consequences—the lower you can keep those numbers, the better. At the same time, you do not get a deduction for the charitable gift. Essentially, you can't have it both ways—avoiding income plus getting a deduction. Avoiding the income is more valuable.

Reducing your Adjusted Gross Income reduces the non-retirement income potentially subject to the 3.8 Affordable Care Act surcharge on unearned income. That surcharge applies to interest, dividends, and capital gains to the extent AGI exceeds \$200,000 (for singles) or \$250,000 (for married couples filing jointly). The surcharge does not apply to your IRA distributions, but eliminating IRA distributions from AGI can allow more investment income to fall below that threshold.

Reducing your AGI also reduces the effect of the Pease haircut and limits on personal exemptions. Those provisions increase taxes without increasing tax rates. To the extent your AGI exceeds an inflation-adjusted threshold (in 2016, that's \$259,400 for singles and \$311,300 for married filing jointly), you can lose itemized deductions and personal exemptions by three percent of the excess. Thus, to the extent your income exceeds those thresholds, reducing AGI with an IRA gift to charity can increase exemptions and deductions by as much as \$6,000.

The charitable gift also reduces MAGI, which matters in calculating future Medicare premiums. Singles with a MAGI over \$85,000 and couples with it over \$170,000 pay increased premiums. Those premiums jump again at \$107,000 and \$214,000 of MAGI, respectively.

As this suggests, the math is complicated, though it's almost always in your favor to give from your IRA. Please feel free to contact me with any questions.

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