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This Useful Feature Could Simplify Your Charitable Donations

Thanks to the Qualified Charitable Distribution (QCD) provision, more retirees with charitable commitments are utilizing their IRAs, and often satisfying their required minimum distributions (RMD) in the process. However, the procedure can be time-consuming. The challenges include filling out the necessary paperwork for each charity, verifying the charitable organizations' status, deciding amount (and frequency) of the gift, and waiting for the donation checks to arrive.

Read my last quarterly letter for more on QCD¹.

Fortunately, many major financial institutions have rolled out a cash-management feature for certain IRA accounts that simplifies charitable donations—having a checkbook for your IRA account.

For the purpose of this discussion, only the custodians we use—Schwab and Fidelity—will be addressed.

IRA Account Type Eligibility

Not all IRA account types can add checkwriting. Refer to the table below for eligibility.

Account Type	Schwab	Fidelity
Traditional & Rollover	Yes	Yes
SEP IRA	Yes	Yes
SIMPLE IRA	Yes	No
Roth IRA	Yes	No

Given the tax-free distribution nature of Roth IRA accounts, the benefits of the QCD are essentially nullified, but a checkbook can still be convenient. Roth IRAs also have an additional restriction: they must be open for at least five years before checkwriting is allowed.

Age Requirement

There is hard minimum age requirement of 59½ imposed on the checkwriting feature. That is because distributions taken prior to 59½ are considered early withdrawals and generally subject to a 10% tax penalty.

¹ <https://www.summaglobal.com/perspective/charitable-planning-in-the-new-tax-reform-era/>

For account owners over 70½ years old, the QCDs also count toward their required minimum distribution (RMD), up to \$100,000 annually.

Tax Consideration

Distributions from an IRA account are fully taxable and reported on Form 1099-R. However, recently enacted legislation provides a way to reduce taxes for those who are charitably inclined. Donations of up to \$100,000 are generally free-of-tax for those who are over 70½ and have RMD requirements. It is important to keep track of these donation check amounts as both taxable and tax-exempt distributions will appear on your tax form. When filing taxes, let your accountant know how much of the total RMD distribution went directly to charities (QCDs), because the 1099-R does not track it separately. You will need to count only the taxable portion when reporting your IRA distributions for tax purposes.

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donations... charitable contributions

Relationship between IRA distributions, owner's age and tax consideration			
IRA Owner Age	Prior to 59½	59½ to 70½	After 70½
All IRAs (except Roth IRAs)	<ul style="list-style-type: none"> Taxable Early withdrawal penalty 	<ul style="list-style-type: none"> Taxable 	<ul style="list-style-type: none"> Taxable QCDs tax-free up to \$100,000
Roth IRAs (if 5-year rule satisfied)	<ul style="list-style-type: none"> Contributions can be with-drawn tax-free Conversions (if any) are tax-exempt. Earnings subject to early withdrawal penalty 	<ul style="list-style-type: none"> Tax-free 	<ul style="list-style-type: none"> Tax-free

A major difference between the two custodians is that Schwab will not withhold taxes from the check disbursements, whereas Fidelity will apply 10% federal tax and the applicable minimum state income tax rate to the distributions, unless the IRA account holder explicitly opts out of them.

Aside from the above nuances, adding checkwriting to an IRA account is very similar to a regular checking account. Check out the summary table and talk to us to find out if this is right for you.

Features	Schwab	Fidelity
Minimum Age	59½	59½
RMD Age	70½ and above	70½ and above
Tax Reporting	Form 1099-R	Form 1099-R
Tax Withholding	No	10% federal State minimum
Debit Card	No	No
Fees	No	No

Happy Summer!