

IRA Distribution Facts & Information
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The most common distribution is what is referred to as a Required Minimum Distribution, or RMD. Once an individual turns 70.5 they must withdraw a minimum amount - determined by a very specific formula - every year. When the withdrawal occurs, the individual must pay taxes on the income. As such, they can turn around and donate those funds to charity, and claim a tax deduction.

In fact, an IRA holder can authorize the withdrawal of IRA assets pretty much any time and have them directed to a charity. As long as they are taxed on the income, they can claim a charitable deduction for the gift. Roth IRAs do not require RMDs until after the death of the owner. Should an individual withdraw any funds from their IRA before they are 59.5, not only must they pay taxes on the income, but also a 10% early distribution penalty. There are a few exceptions to the penalty, such as in the case of a disability.

Moral of the story: RMDs and other *standard* IRA withdrawals must be taxed. They can then be directed to charity where a tax-deduction can be claimed.

IRA Rollovers - or more correctly, Qualified Charitable Distributions (QCDs), are now permanently allowed (they have been on and off since the Pension Protection Act of 2006). These are TAX FREE withdrawals and can be ONLY directed to charity. NO TAX-DEDUCTION can be claimed for these transfers. Yes, they are called "charitable distributions," but NOT because they are deductible. Rather, because they can only be given to a qualified charity. The individual never recognizes these as income - therefore they cannot deduct them.

While these cannot be deducted, we still must issue an acknowledgement to the donor – taking care, I might add, to remind the donor that these are not tax-deductible.

If you are ever in doubt as to whether you have received a RMD, QCD, or some other form of distribution, do not guess. Call the financial institution to confirm the proper treatment of the distribution.

Back in late 2014 the IRS released IR-2014-117 further explaining some nuances on QCD's. For instance, there are a number of nonprofit entities that you CANNOT send a QCD to. Below is a snippet from that release addressing both the non-deductibility of these – as well as who you cannot direct these to.

From IR-2014-117 addressing QCDs:

"As a result, older IRA owners once again have a different way to give to charity. An IRA owner, age 70½ or over, can directly transfer, tax-free, up to \$100,000 per year to an eligible charity. This option, first available in 2006, can be used for distributions from IRAs, regardless of whether the owners itemize their deductions. Distributions from

employer-sponsored retirement plans, including SIMPLE IRA plans and simplified employee pension (SEP) plans, are not eligible.

"To qualify, the funds must be transferred directly by the IRA trustee to the eligible charity. Distributed amounts may be excluded from the IRA owner's income – resulting in lower taxable income for the IRA owner. **However, if the IRA owner excludes the distribution from income, no deduction, such as a charitable contribution deduction on [Schedule A](#), may be taken for the distributed amount.**

"Not all charities are eligible. **For example, donor-advised funds and supporting organizations are not eligible recipients.**"

For further details, please go to the IRS FAQ on the topic:

<https://www.irs.gov/Retirement-Plans/Retirement-Plans-FAQs-regarding-IRAs-Distributions-Withdrawals>

But here is the IRS text in its entirety:

IRA FAQs - Distributions (Withdrawals)

Distributions while still working

Can I take money from my traditional IRA, or my SEP or SIMPLE IRA, while I am still working?

You can take distributions from your IRA (including your SEP-IRA or SIMPLE-IRA) at any time. There is no need to show a hardship to take a distribution. However, your distribution will be includible in your taxable income and it may be subject to a 10% additional tax if you're under age 59 1/2. The additional tax is 25% if you take a distribution from your SIMPLE-IRA in the first 2 years you participate in the SIMPLE IRA plan. There is no exception to the 10% additional tax specifically for hardships. See [chart of exceptions to the 10% additional tax](#).

Do I request the distribution check directly from my employer or from the financial institution where contributions to my SEP or SIMPLE IRA are invested?

You will need to contact the financial institution holding your IRA assets.

If I withdraw money from my IRA before I am age 59 1/2, which forms do I need to fill out?

Regardless of your age, you will need to file a Form 1040 and show the amount of the IRA withdrawal. Since you took the withdrawal before you reached age 59 1/2, unless you met one of the exceptions listed in [Publication 590-B](#), you will need to pay an additional 10% tax on early distributions on your Form 1040. You may need to complete and attach a [Form 5329](#) *Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts*, to the tax return. Certain distributions from Roth IRAs are not taxable.

Can I deduct the 10% additional early withdrawal tax as a penalty on early withdrawal of savings?

No, the additional 10% tax on early distributions from qualified retirement plans does not qualify as a penalty for withdrawal of savings.

Will I have to pay the 10% additional tax on early distributions if I am 47 years old and ordered by a divorce court to take money out of my traditional IRA to pay my former spouse?

Yes. Unless you qualify for an [exception](#), you must still pay the 10% additional tax for taking an early distribution from your traditional IRA even if you take it to satisfy a divorce court order (Internal Revenue Code section [72\(t\)](#)). The 10% additional tax is charged on the early distribution amount you must include in your income and is in addition to any regular income tax from including this amount in income. Unlike distributions made to a former spouse from a qualified retirement plan under a [Qualified Domestic Relations Order](#), there is no “divorce” exception to the 10% additional tax on early distributions from IRAs.

The only divorce-related exception for IRAs is if you transfer your interest in the IRA to a spouse or former spouse, and the transfer is under a divorce or separation instrument (see IRC section [408\(d\)\(6\)](#)). However, the transfer must be done by:

- changing the name on the IRA from your name to that of your former spouse (if transferring your entire interest in that IRA), or
- a [trustee-to-trustee transfer](#) from your IRA to one established by your former spouse. **Note:** an indirect rollover doesn't qualify as a transfer to your former spouse even if the distributed amount is deposited into your former spouse's IRA within 60-days.

See Retirement Topics - [Divorce](#)

Required minimum distributions

How much must I take out of my IRA at age 70 1/2?

Required minimum distributions (RMDs) must be taken each year beginning with the year you turn age 70 1/2. The RMD for each year is calculated by dividing the IRA account balance as of December 31 of the prior year by the applicable distribution period or life expectancy. This rule does not apply to your Roth IRAs. You can determine your distribution period or life expectancy by using the Tables in Appendix B of [Publication 590-B Distributions from Individual Retirement Arrangements \(IRAs\)](#).

- **Table I** - for beneficiaries.
- **Table II** - for owners whose spouse is 10 years younger and the IRA's sole beneficiary
- **Table III** - for all other owners (most IRA owners will use this table)

See the discussion of [required minimum distributions](#) and worksheets to calculate the required amount.

I am over age 70 ½. Must I receive required minimum distributions from a SEP-IRA or SIMPLE-IRA if I am still working?

Both business owners and employees over age 70 1/2 must take [required minimum distributions](#) from a SEP-IRA or SIMPLE-IRA. There is no exception for non-owners who have not retired.

Qualified charitable distributions

What is a qualified charitable distribution?

Generally, a qualified charitable distribution is an otherwise taxable distribution from an IRA (other than an ongoing SEP or SIMPLE IRA) owned by an individual who is age 70½ or over that is paid directly from the IRA to a qualified charity. See [Pub. 590-B](#), *Distributions from Individual Retirement Arrangements (IRAs)* for additional information.

Can a qualified charitable distribution satisfy my required minimum distribution from an IRA?

Yes, your qualified charitable distributions can satisfy all or part the amount of your required minimum distribution from your IRA. For example, if your 2014 [required minimum distribution](#) was \$10,000, and you made a \$5,000 qualified charitable distribution for 2014, you would have had to withdraw another \$5,000 to satisfy your 2014 required minimum distribution.

How are qualified charitable distributions reported on Form 1099-R?

Charitable distributions are reported on Form 1099-R for the calendar year the distribution is made.

How do I report a qualified charitable distribution on my income tax return?

To report a qualified charitable distribution on your Form 1040 tax return, you generally report the full amount of the charitable distribution on the line for IRA distributions. On the line for the taxable amount, enter zero if the full amount was a qualified charitable distribution. Enter "QCD" next to this line. See the Form 1040 instructions for additional information.

You must also file Form 8606, *Nondeductible IRAs*, if:

- you made the qualified charitable distribution from a traditional IRA in which you had basis and received a distribution from the IRA during the same year, other than the qualified charitable distribution; or
- the qualified charitable distribution was made from a Roth IRA.