

What is RMD? RMD Formula
RMD case studies

- Age 80
- Age 70
- Age 60

What is Qualified Charitable Distribution?

- Why is QCD tax smart?
- Case study

Tax Smart

如何利用 QCD來節稅



黃大華



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9/14/'24 星期六

美西 4 PM, 美中 6 PM, 美東 7 PM



退休系列講座第二季 Tax Smart (1)

美國北一女校友基金會主辦

ABAF 退休系列講座第二季：

TAX SMART

第一集 如何利用QCD來節稅？



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OUTLINE

- ❑ What is **R**equired **M**inimum **D**istribution? **RMD** Formula

- ❑ RMD Case Studies
 - Age 80
 - Age 70
 - Age 60

- ❑ What is **Q**ualified **C**haritable **D**istribution?
 - Why are **QCDs** Tax Smart?
 - Case Studies

- ❑ What is in it for me?

- ❑ Q&A

RMD: REQUIRED MINIMUM DISTRIBUTION

- Applies to all tax-deferred retirement plans such as TRADITIONAL 401(k), 403(c), IRA, SEP, etc.
not applicable to ROTH
- RMD rules require individuals to take withdrawals from these retirement accounts every year once they reach the age requirement, even if you are still employed
- RMDs must begin by age:
70½ if you were born before 1950
72 if you were born in 1950
73 if you were born 1951-1959
75 if you were born 1960 or later
- In case of multiple tax-deferred retirement accounts, you must compute RMD separately from each, but required withdrawals can be made from any one or a combination of such accounts
- You can take RMD either monthly or yearly
- FAILURE TO TAKE YOUR RMD TRIGGERS A 25% PENALTY ON THE AMOUNT NOT DISTRIBUTED
- Post death, heirs (not spouse) have a 10-year RMD rule

RMD FORMULA

Prior Year Balance on 12/31 (\$)

分子

Life Expectancy Factor (xx years)

分母

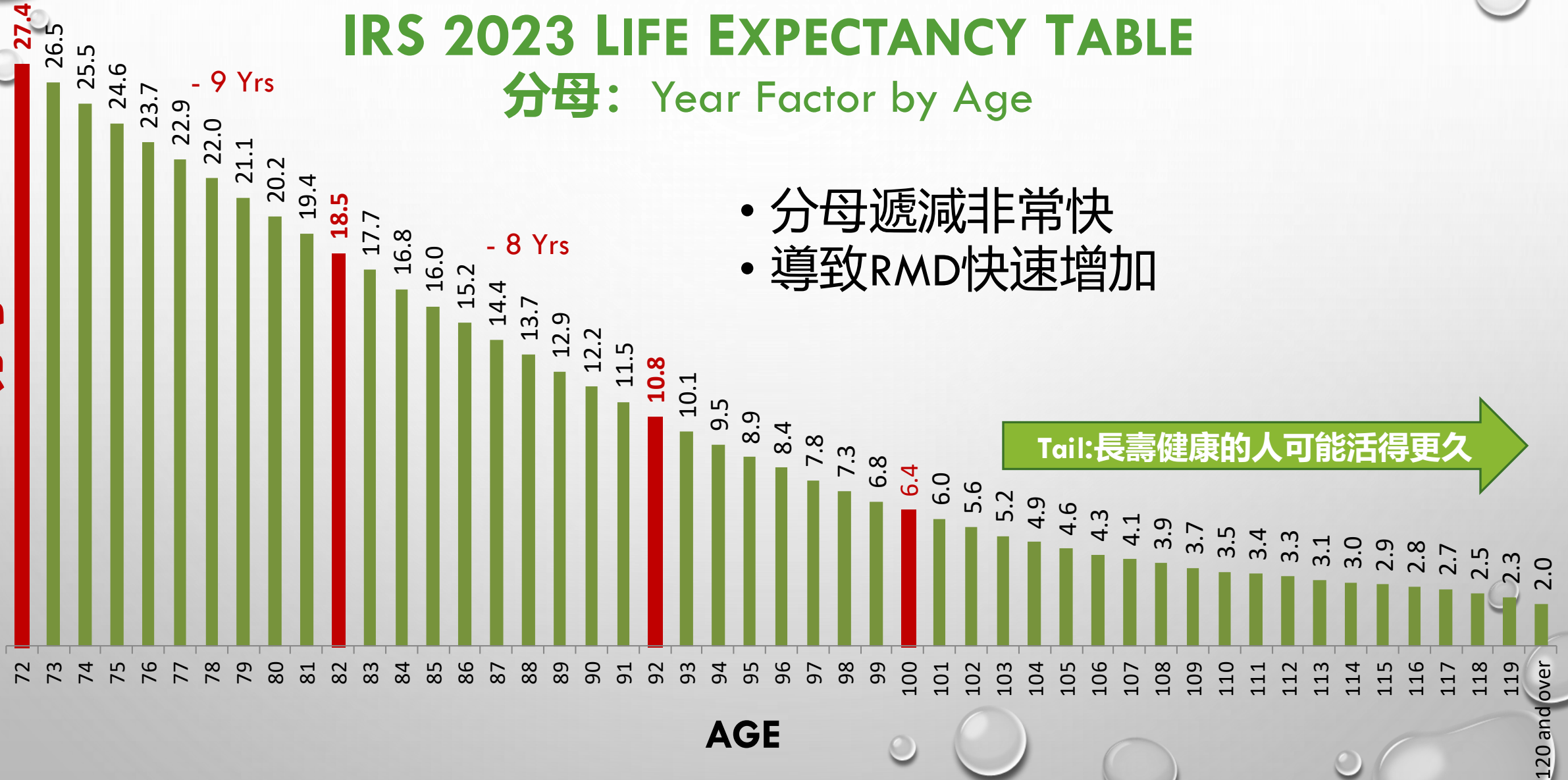
= Required Minimum Distributions (RMD)

分母

IRS 2023 LIFE EXPECTANCY TABLE

分母：Year Factor by Age

- 分母遞減非常快
- 導致RMD快速增加



Tail: 長壽健康的人可能活得更久

S&P PERFORMANCE

S&P 500 Level

- 1990-Now 分子蓬勃增長

- Rule of 72

過去30年，平均漲幅12%一年

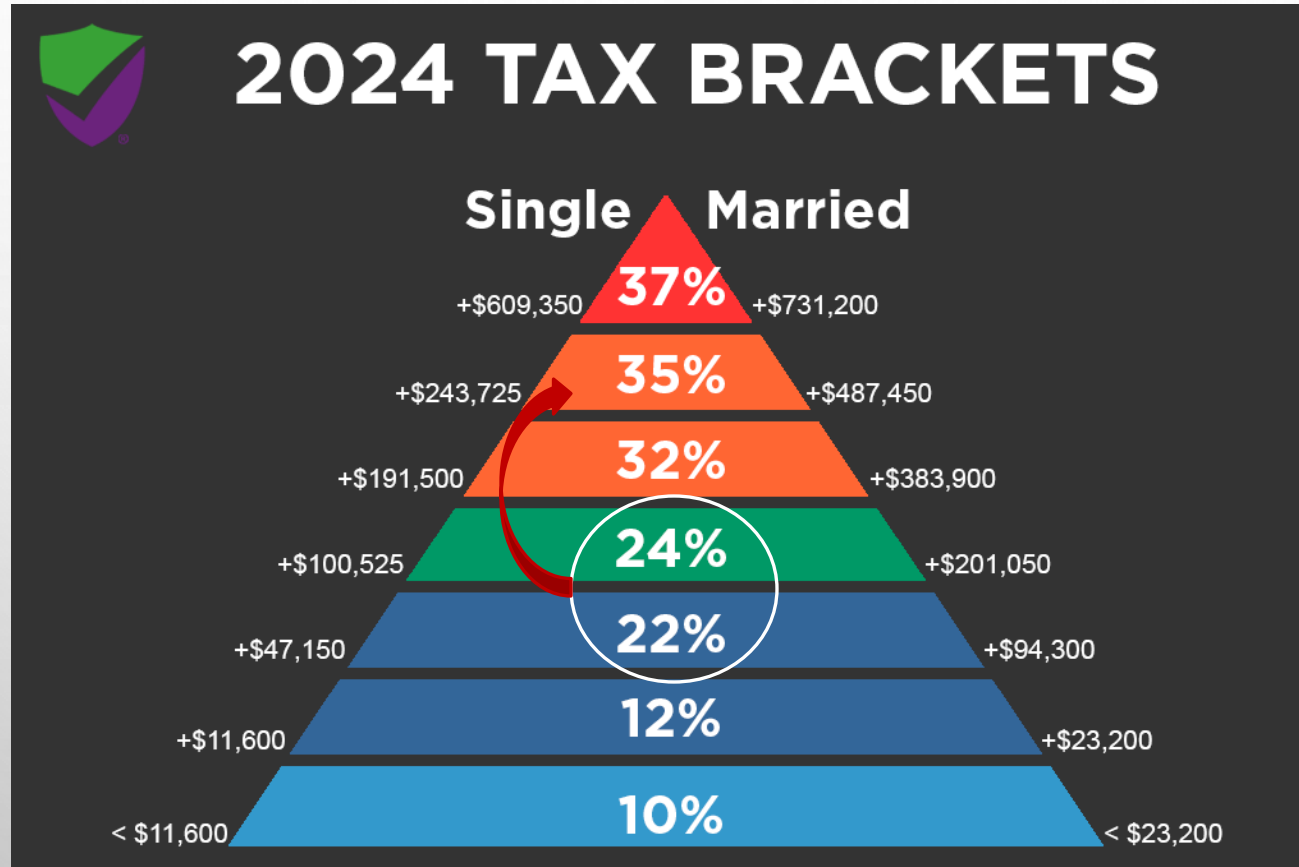


Date Range: 01/03/1950 - 02/09/2024

Gray = US Recessions

Feb 12, 2024, 6:04 PM EST Powered by YCHARTS

FAST GROWING RMD IMPLICATION TO TAXES



PROJECTION INTO THE FUTURE



雙薪家庭/乖乖牌

RMD Case Studies

- Age 80
- Age 75
- Age 65

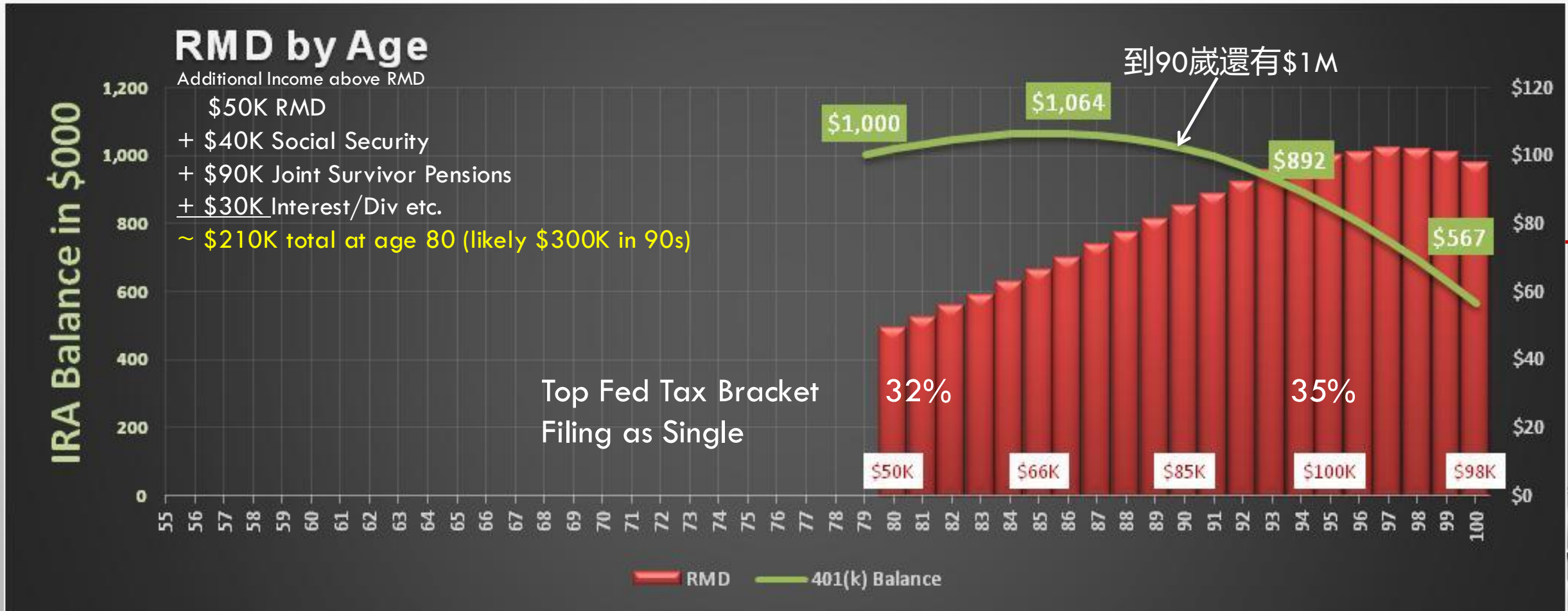
CASE STUDY #1

Age 80 Surviving Spouse

ASSUMPTIONS:

- Combined IRA balance at \$1 M (\$500K each x 2)
- **Future rate of return @ 7%** a year

Red Bars are RMD only; Green Line shows IRA balances

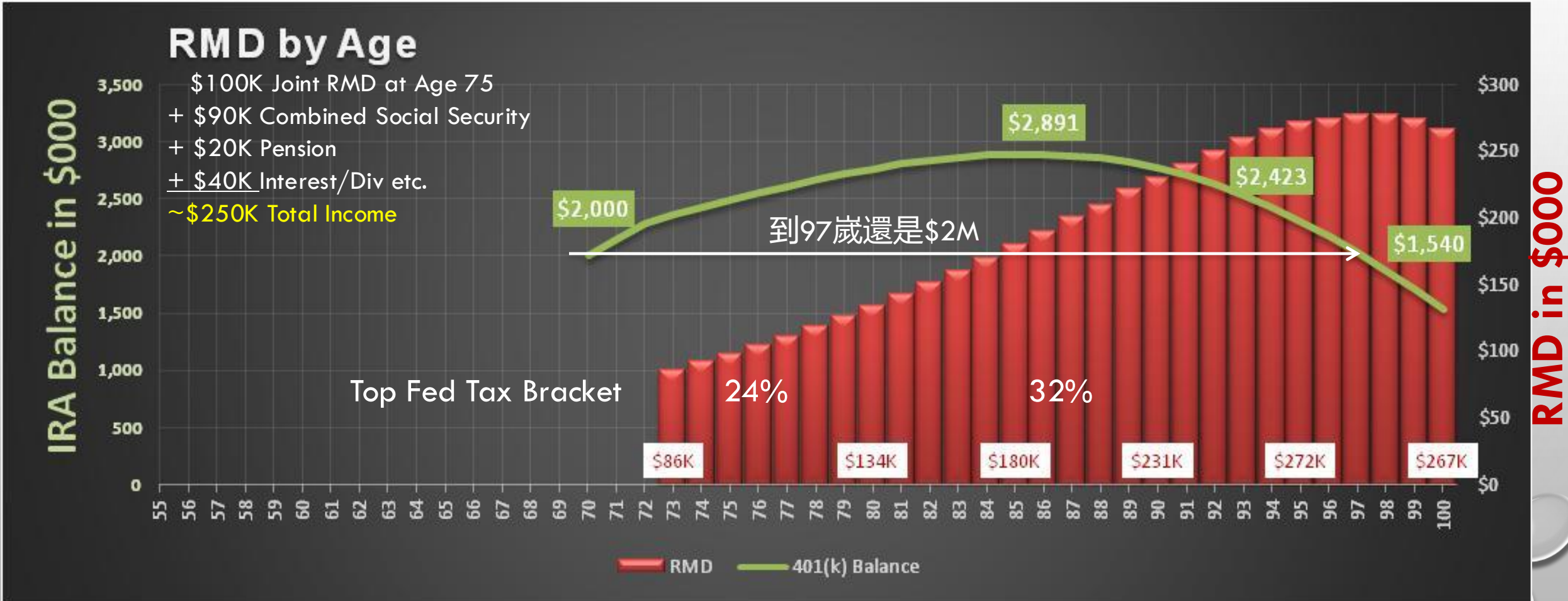


CASE STUDY #2.1

Age 75 Couple

ASSUMPTIONS:

- Combined IRA balance \$2.0M (\$1M each x 2) at Age 70
- **Future rate of return @ 7%** a year
- **Red Bars are RMD only; Green Line shows IRA balances**



CASE STUDY #2.2

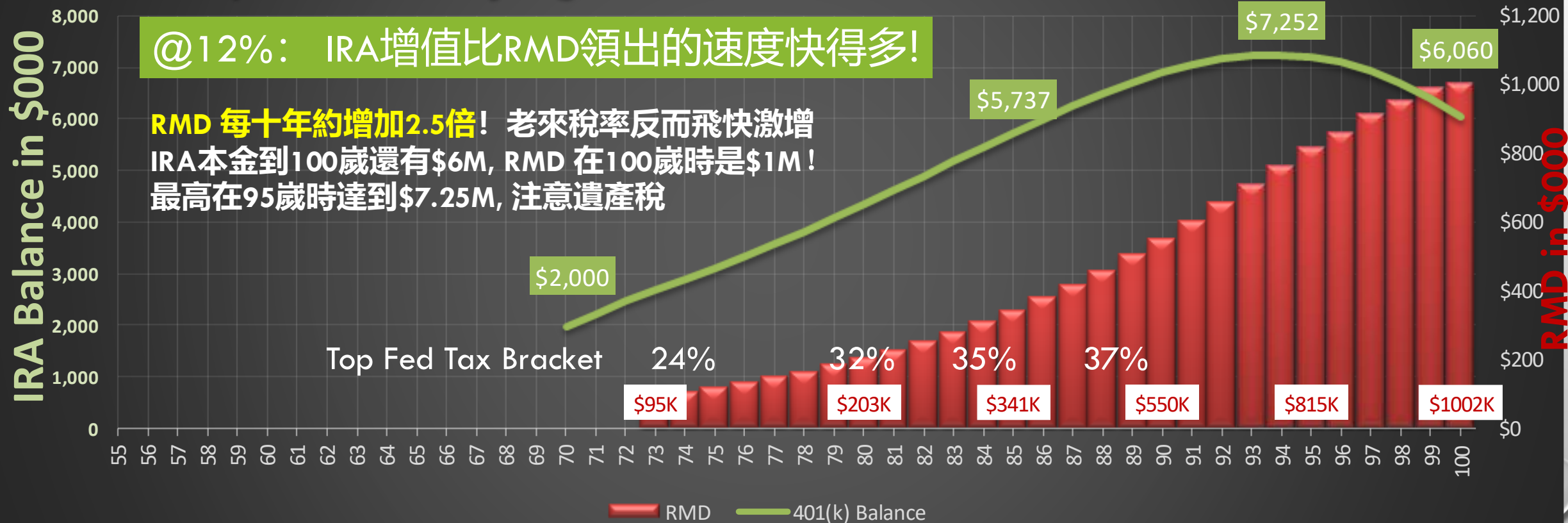
Age 75 Couple

ASSUMPTIONS:

Combined IRA balance \$2.0M (\$1M each)

Future rate of return @ 12% per year as seen in the past 30 years

Couple's RMD by Age

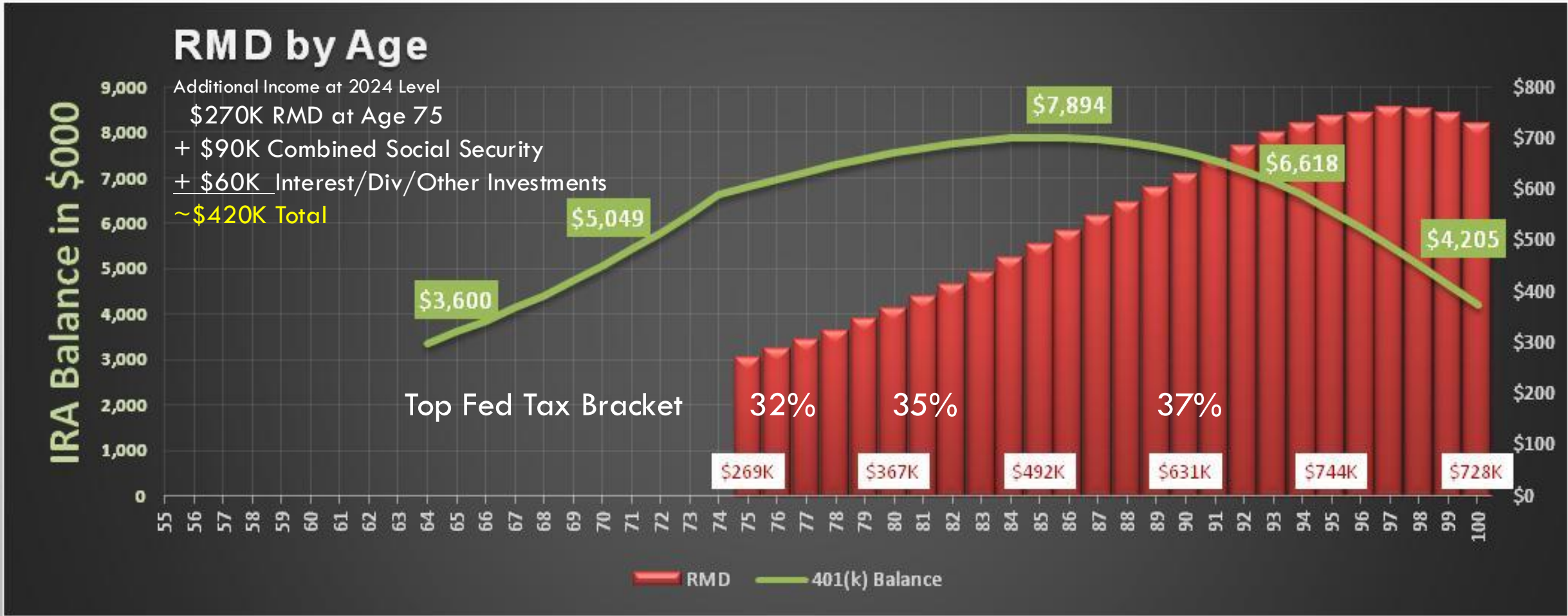


CASE STUDY #3.1

Age 65 Retired Couple

ASSUMPTIONS:

- Combined IRA balance \$3.6M or \$1.8M each
- Future rate of return @7% a year
- Born after 1959, RMD begins at Age 75

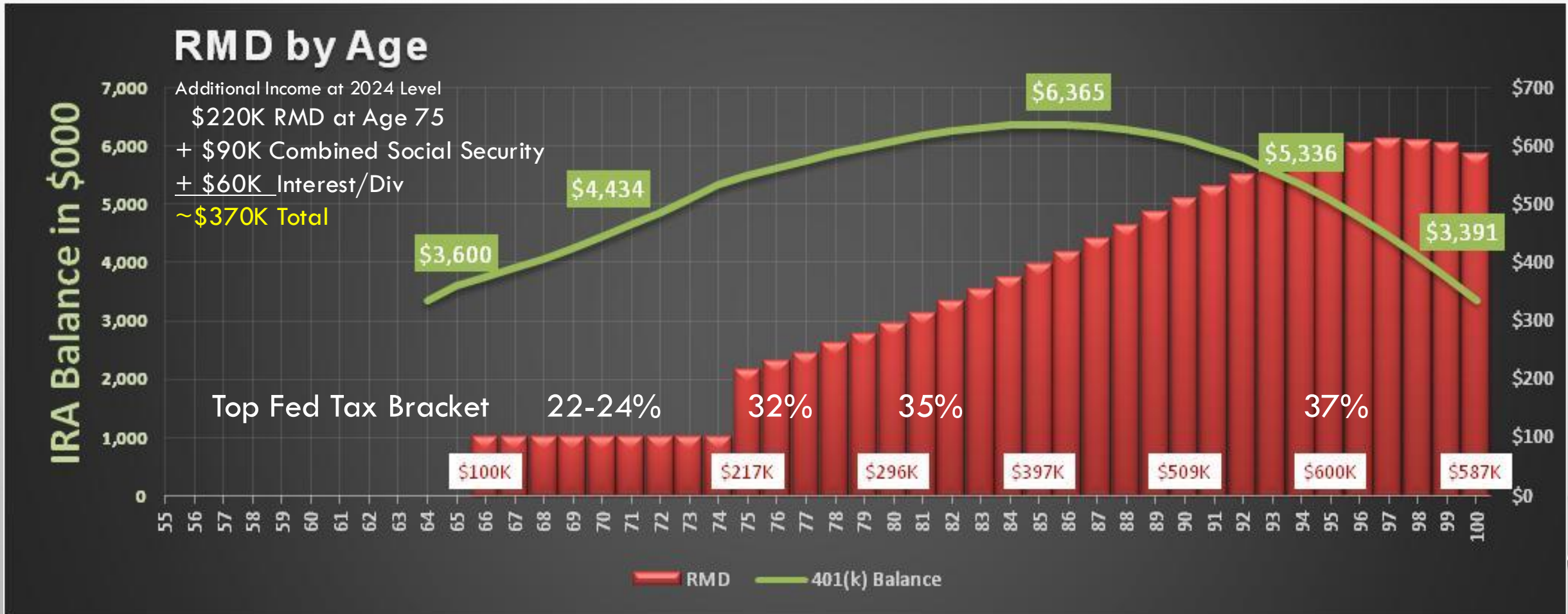


CASE STUDY #3.2

Age 65 Retired Couple

ASSUMPTIONS:

- Combined IRA balance **\$3.6M** or **\$1.8M** each
- Future rate of return **@ 7%** a year
- Drawing \$100K/Yr since age 66 then RMD at age 75





每個家庭情況不同

- Hope you gain a sense of security and see the mounting tax obligations through these projections
- Please adjust RMD forecast proportionally up and down based on your current IRA balance(s)

Example:

If you are single,

Take RMD down 50% if Demo is about 2X of your current IRA balance. Use tax brackets for Singles.

- Consult your CPA or Financial Planner for your specific case

TAX PLANNING



RMD越來越高，有什麼對策呢？

- 早做 ROTH Conversion (Tax Implication - not guaranteed to be worth it for everyone)
- Qualified Charitable Distribution QCD

WHAT ARE QCDs? HOW DO THEY WORK?

Qualified Charitable Distribution 是 IRS 提供給領 RMD 人士的特殊福利

QCD

A donation made
directly from an IRA to
a 501(c)(3) charity

- Fulfills your Required Minimum Distribution
- Excluded from taxable income on tax returns
- You must be at least 70½ *It applies to heirs too!*
- You can gift up to \$105,000 a year as of 2024
Use it or lose it.

MANY TAX BENEFITS OF QCDs

Fulfilling RMD but excluded from Gross Income for taxes, which means

- ✓ Lower Fed and State Income Taxes Paid
- ✓ Lower Adjusted Gross Income potentially impacting
 - Medicare Premiums
 - Net Investment Income Surtaxes Add'l 3.8% if AGI > \$200 (S) or \$250K(J)
 - State Tax Breaks for Seniors (Ex. NJ Property Taxes 50% off up to \$6,500)
 - And more
- ✓ You can still take Standard Deductions beyond the QCD



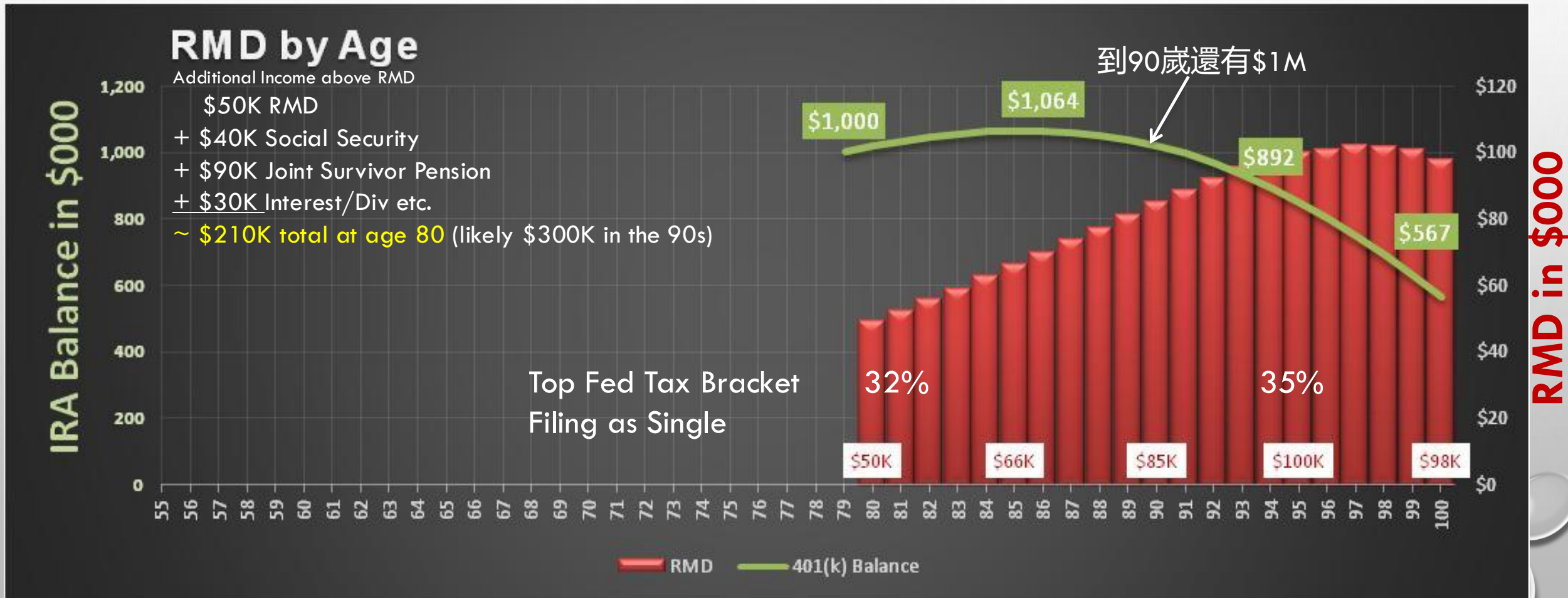
CASE STUDY #1

Age 80 Surviving Spouse

ASSUMPTIONS:

- Combined IRA balance at \$1 M (\$500K each x 2)
- **Future rate of return @ 7%** a year

Red Bars are RMD only; Green Line shows IRA balances



EXAMPLE 1: \$20,000 DONATION

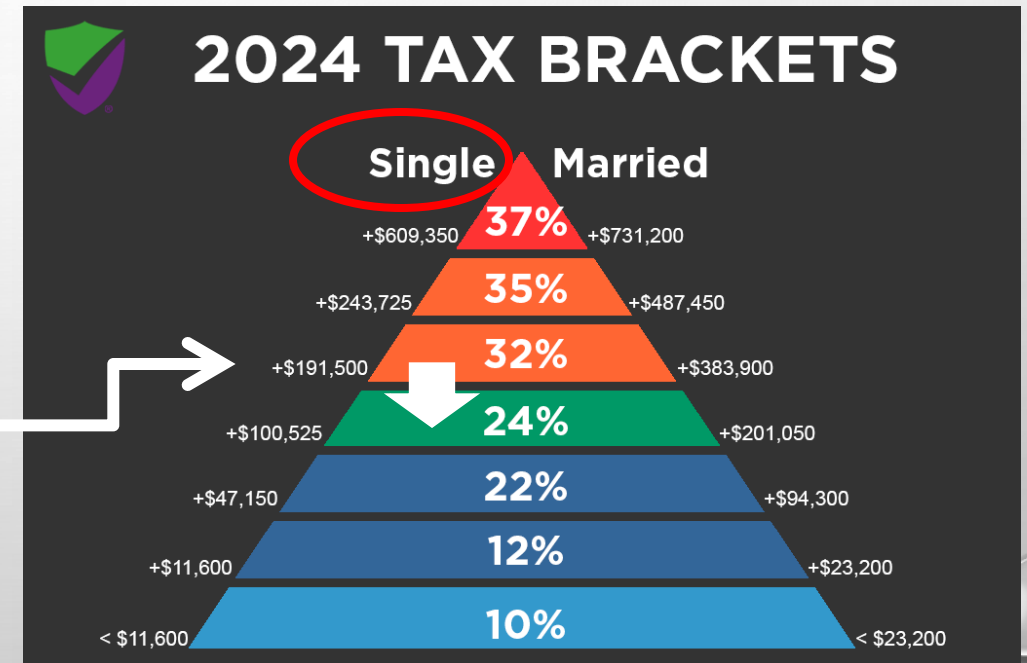


Comparison: No Gift vs. \$20K Cash Gift vs. \$20K QCD

Assumptions:

- 1) You are 80 or older
- 2) A Surviving Spouse who has \$210K Income: \$50K Joint RMD, \$40K Social Security, \$90K Joint Pension, \$30K Int/Div etc.
- 3) No other Itemized Deductions and filing as Single

Tax Year 2024	Top Bracket 32%	24%	24%
	No Gift	Gift of Cash	Gift of QCD
Adjusted Gross Income (AGI)	\$210,000	\$210,000	\$190,000
Itemized Charitable Deduction	n/a	(\$20,000)	n/a
Standard Deduction <small>\$14,600 + Age 65 Add \$1,950</small>	\$16,550	n/a	\$16,550
Taxable Income	\$193,450	\$190,000	\$173,450
Fed Taxes Due	\$39,627	\$38,643	\$34,671



What If In NJ?

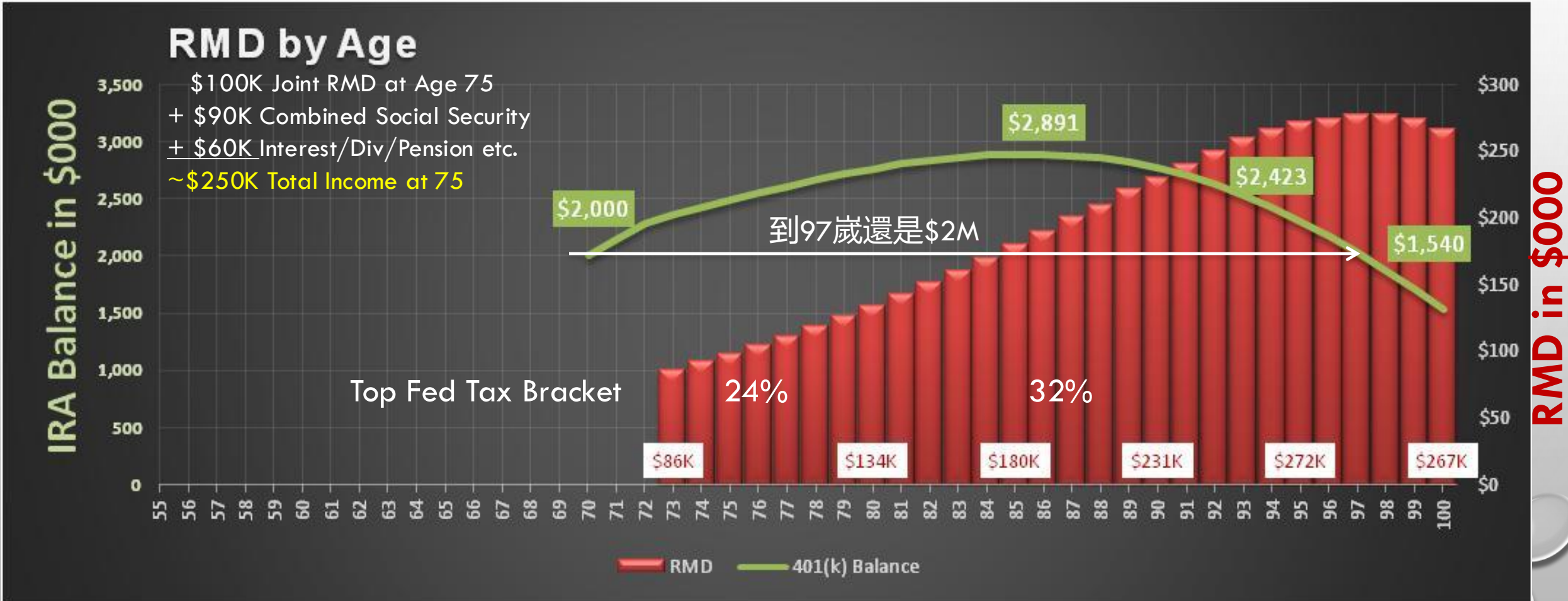
Fed Tax Savings Alone = \$4,956

CASE STUDY #2.1

Age 75 Couple

ASSUMPTIONS:

- Combined IRA balance \$2.0M (\$1M each x 2) at Age 70
- **Future rate of return @ 7%** a year
- **Red Bars are RMD only; Green Line shows IRA balances**



EXAMPLE 2.1: \$0 vs. \$10K vs. \$20K QCD

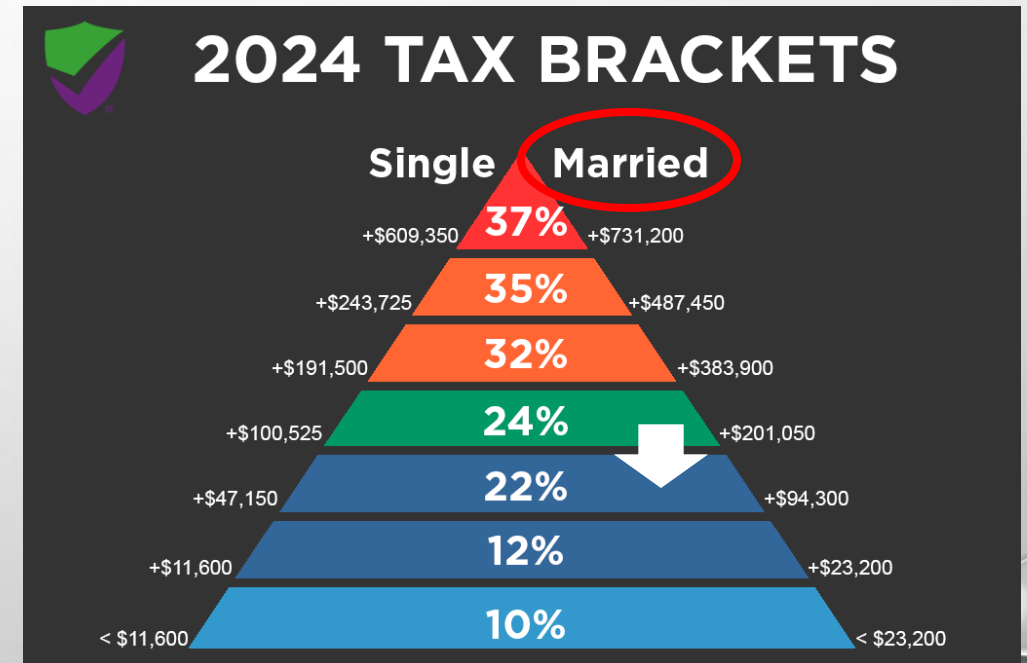


Assumptions:

- 1) **Couple with \$250K Income:** \$100K RMD, \$90K Social Security, and \$60K of Investment Income
- 2) No other Itemized Deductions and married filing jointly
- 3) You and your spouse are **75 years older**

Tax Year 2024	Top Bracket	24%	24%	22%
Tax Year 2024	No Gift	\$10K QCD	\$20K QCD	
Adjusted Gross Income (AGI)	\$250,000	\$240,000	\$230,000	
Itemized Charitable Deduction	n/a	n/a	n/a	
Standard Deduction <small>\$29,200 + Age 65 Add \$3,900 for Both</small>	\$33,100	\$33,100	\$33,100	
Taxable Income	\$216,900	\$206,900	\$196,900	
Fed Taxes Due	\$38,141	\$35,741	\$33,424	

Fed Tax Savings Alone = \$4,717



EXAMPLE 2.2: AGE 75 COUPLE 10 YEARS OUT



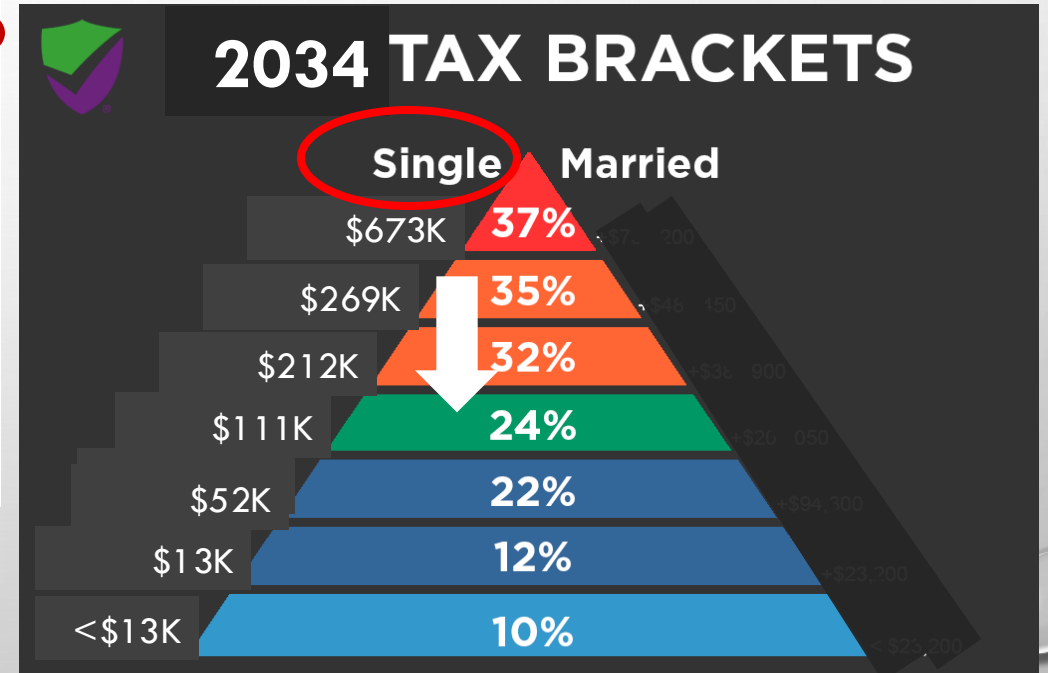
Life Changing Event: **Assuming one spouse had passed away**

Assumptions:

- 1) Surviving spouse may have ~\$318K Income: **\$200K RMD**, **\$58K Social Security**, \$20K Pension, and \$40K other
- 2) No other Itemized Deductions and filing as **Single**
- 3) IRS inflation index for tax brackets and Std Deduction @1% for 10 years out
- 4) Survivor will be **85** or older by then

Est. Tax Year 2034	No Gift	\$100K QCD
Adjusted Gross Income (AGI)	\$318,000	\$218,000
Itemized Charitable Deduction		n/a
Standard Deduction for Single Index @ 1% Inflation	\$18,000	\$18,000
Taxable Income	\$300,000	\$200,000
Top Bracket	35%	24%

• **\$32K federal tax savings when you drop 2 tax brackets.**



SUMMARY

- RMD nearly doubles every 10 years assuming an average yield @7% annually.
- Think ahead of a surviving spouse situation. Rollover. Filing taxes as Singles.
- If you see your retirement and family needs will be met and you want to give back, consider making recurring QCD annually at a strategic amount that would lower your tax brackets by 1 to 2 tiers.
- Best to utilize QCD annually during your lifetime. Don't wait. Use it or lose it.



- Note for 10 year RMD rule on heirs (non-spouse).
- Heirs must be 70.5 or older to qualify for QCD.



TAKE IT TO A HIGHER PURPOSE

- RMD is like a time-bomb. It gets bigger and bigger at an accelerated rate. Internalize the fast rising RMD amounts. Gain a sense of security and realize the mounting tax obligations coming at you.
- In the 4th quarter of your life, if you would like to give back.....
- Take advantage of QCD annually, a special incentive available only to RMD taxpayers. Don't wait!
- Lower Federal / State / Medicare Premium / possibly Property tax payments
- Redirect a part of hefty Government Taxes to fund what matters most to you
- Kick It Up Another Gear:
Via QCD out of your retirement account into an **Endowment Fund**, your legacy will be **extended into another tax-free compounding vehicle which continues to grow & work for you beyond your lifespan!**

STAY TUNED

北一女發展永續基金說明會

Endowment
Fund





Q & A

CONSULT YOUR CPA OR FINANCIAL PLANNER

THE INFORMATION PROVIDED ON THE SITE IS IN GOOD FAITH FOR GENERAL INFORMATION PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR PROFESSIONAL ADVICE. WE ENCOURAGE YOU TO CONSULT WITH THE APPROPRIATE PROFESSIONALS. THE USE OR RELIANCE OF ANY INFORMATION CONTAINED ON THE SITE IS SOLELY AT YOUR OWN RISK.

HOW TO MAKE A QCD



- Instruct your IRA administrator to make a distribution DIRECTLY TO A CHARITY
- Visit ABAF website www.ABAF.org for necessary NPO information

HOW TO REPORT QCD ON TAX RETURNS

1040 Form

Income:

4. IRA Distributions

a) Enter your RMD amount **A**

b) RMD minus your QCD. Enter the lower number as Taxable amount **B**

Income					
1a	Total amount from Form(s) W-2, box 1 (see instructions)			1a	
1b	Household employee wages not reported on Form(s) W-2			1b	
1c	Tip income not reported on line 1a (see instructions)			1c	
1d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)			1d	
1e	Taxable dependent care benefits from Form 2441, line 26			1e	
1f	Employer-provided adoption benefits from Form 8839, line 29			1f	
1g	Wages from Form 8919, line 6			1g	
1h	Other earned income (see instructions)			1h	
1i	Nontaxable combat pay election (see instructions)			1i	
z	Add lines 1a through 1h			1z	
2a	Tax-exempt interest	2a		b	Taxable interest
3a	Qualified dividends	3a		b	Ordinary dividends
4a	IRA distributions	4a		b	Taxable amount
5a	Pensions and annuities	5a		b	Taxable amount
6a	Social security benefits	6a		b	Taxable amount
c	If you elect to use the lump-sum election method, check here (see instructions)		<input type="checkbox"/>		
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here		<input type="checkbox"/>	7	
8	Other income from Schedule 1, line 10			8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income			9	
10	Adjustments to income from Schedule 1, line 26			10	
11	Subtract line 10 from line 9. This is your adjusted gross income			11	
12	Standard deduction or itemized deductions (from Schedule A)			12	
13	Qualified business income deduction from Form 8995 or Form 8995-A			13	
14	Add lines 12 and 13			14	
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income			15	

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.
If you did not get a Form W-2, see instructions.

Attach Sch. B if required.

Standard Deduction for—
 • Single or Married filing separately, \$12,950
 • Married filing jointly or Qualifying surviving spouse, \$25,900
 • Head of household, \$19,400
 • If you checked any box under Standard Deduction, see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2022)

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TAX SMART

- ① **RMD and QCD**
- ③ **Appreciated Stock & DAF** for those who not at RMD age yet

② 北一女發展永續基金說明會

What if SS and your retirement savings may not meet basic expenses after retirement?

Other such as TRAVEL SMART?