

The IRS posted their final regulations regarding how charitable gifts to receive state tax credits will be handled for gifts made after August 27, 2018.

There are two new rules:

1. You must reduce your federal itemized charitable deduction by the amount of tax credits you receive in return.
2. You may count your charitable state tax credits towards your federal State and Local Tax (SALT) deduction.

This is covered in our document titled "Arizona Charitable Donations for Tax Credits v3.2"

Unfortunately, QCD's create some confusion due to IRS Code (IRC) Section 408(d)(8) Subsection (C) which defines QCD rules as:

(C) Contributions must be otherwise deductible. For purposes of this paragraph, a distribution to an organization described in subparagraph (B)(i) shall be treated as a qualified charitable distribution only if a deduction for the entire distribution would be allowable under section 170 (determined without regard to subsection (b) thereof and this paragraph).

In other words, if a portion of a QCD is not allowed as a Charitable deduction, then the entire QCD is not allowed.

Therefore, if a taxpayer uses a QCD to obtain an Arizona Tax Credit, then the entire QCD is not allowable. This negates the benefits of a QCD.

There is one exception.

According to recent IRS final regulations, if the tax credits received are 15% or less than the QCD, then the full amount of the QCD is recognized.

This means your IRA distribution to charity can be recognized as a QCD if you receive 15% or less of the gift in tax credits. This is because the IRS counts a QCD if it could have been otherwise entirely deductible, and it is considered entirely deductible if the tax credits received are 15% or less than the amount transferred.

To enter a QCD where you are also entering an Arizona Tax Credit, ONLY enter a tax credit amount UP TO 15% of the value of QCD or up to the annual qualified amount, whichever is less. This treatment allows the full amount of the QCD to be not taxable as income. This restores the value of the QCD.

Additional Guidelines:

Taxpayer must be at least 70 ½.

Taxpayer must have acknowledgment of the contribution

Maximum annual QCD exclusion is \$100,000, MFJ (\$200,000) if both have a QCD

Form 8606 is required if distribution is from a Roth IRA or distribution from a traditional IRA includes not QCD distributions.

