



IRA ADVISOR

Tax & Estate Planning For Your Retirement Savings

WHAT'S INSIDE?

QCDs in the New Year

- 2018 QCDs
- Working with Tax Preparers
- 2019 QCDs
- Advisor Takeaway

<Pages 1-3>

Executive Summary

<Page 2>

Recharacterization - Still in the Toolbox!

- How Recharacterizing an IRA Contribution Works
- PLR 201848022
- Advisor Takeaway

<Pages 3-4>

Insert: The Multiple Plan Table

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5 Key Rules for Doubling Up on 2019 Contributions

<Pages 5-7>

Join the Retirement Planning Conversation



QCDs in the New Year

As soon as the Times Square Ball dropped, the end-of-year deadlines concluded and another grueling tax season began – *thus, setting up an opportune time to discuss the valuable and often overlooked Qualified Charitable Distribution (QCD) strategy with your clients.*

2018 QCDs

There are some retirement account transactions that can still be done now for 2018. For example, if a client wants to make, or recharacterize, an IRA contribution, there is still time. However, for those looking to do a QCD for 2018, the December 31 deadline was hard and fast.

No time machine exists and there is no going "Back to the Future." QCDs must be taken in the calendar year in which the individual wishes to use it. There are no extensions or "prior-year QCDs." This is true even for first-time required minimum distribution (RMD) takers who can delay their first RMD until April 1, 2019.

Example: Alexandria reached age 70½ in 2018. She elected to delay taking her 2018 RMD until April 1, 2019. This delayed RMD cannot be used as a QCD for 2018. Since Alexandria did not take a QCD by December 31, 2018, her ability to do a QCD for 2018 is lost.

Working with Tax Preparers

When it comes to handling 2018 QCDs on a return, advisors can play a critical role in ensuring that clients and their tax preparers stay on the same page. There is no special code or box on a 1099-R to distinguish a QCD from any other IRA distribution.

As a result, during the hectic tax season, QCDs can easily be missed by a tax preparer. This will result in an erroneous taxable IRA distribution and no itemized deduction for the QCD (because the transfer was from the IRA directly to the charity).

Advisors must be the trusted expert and can serve as an intermediary, bolstering connections between their clients and CPAs. Consider sending a letter to each client who completed a QCD in 2018 confirming the transaction with instructions to provide the letter as documentation to their tax preparer.

To report a QCD on the newly revised 2018 Form 1040 tax return, the IRA owner generally reports the full amount on line 4a for IRA distributions. On the line for the taxable amount (4b), enter zero if the full amount was a qualified charitable distribution. Enter "QCD" next to this line. It is imperative that clients keep clear records and communicate with their tax advisors to ensure QCDs get reported properly.

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