

This visual is designed to show donors why waiting until the year they have an required minimum distribution (RMD) to move their 401(k) results in an unnecessary tax bill.

THE REACTIVE PATH (Falling into the Trap) - Donor waits to act until the year the RMD is due.

Timeframe	Donor Status & Goal	Action Taken	First Dollars Out Trap	Result
Current Year	<p>Status: Holds 401(k) funds.</p> <p>Goal: Wants to satisfy RMD tax-free via a QCD.</p>	Requests rollover of 401(k) balance to an IRA.	<p>? STOP ?</p> <p>“First Dollars Out Rule” applies. You must take your taxable RMD in cash <i>before</i> rolling over the rest.</p>	<p>? Taxable Income Increased</p> <p>Donor receives taxable cash RMD. The remaining funds move to an IRA for QCDs in <i>future</i> years.</p>

THE PROACTIVE PATH (The Tax-Free Solution) - Donor plans one year ahead.

Timeframe	Donor Status & Goal	Action Taken	First Dollars Out Trap	Result

<p>YEAR 1: The “Setup” Year (Before Dec 31)</p>	<p>Status: Holds 401(k) funds.</p> <p>Goal: Prepare for future tax-free giving.</p>	<p>Completes a full, tax-free rollover from 401(k) to an IRA.</p>	<p>? GO ?</p> <p>After the current year RMD is taken, rollover proceeds smoothly.</p>	<p>Funds are successfully housed in an IRA before the year ends.</p>
<p>YEAR 2: The “Giving” Year (Starting Jan 1)</p>	<p>Status: Holds IRA funds.</p> <p>Goal: Satisfy new year’s RMD tax-free.</p>	<p>Donor directs IRA custodian to send a QCD directly to charity.</p>	<p>? GO ?</p> <p>Funds are coming from an IRA. The distribution counts toward the RMD.</p>	<p>? Zero Tax Liability ?</p> <p>RMD is satisfied without increasing taxable income.</p>

[Print](#)

Categories

[QCD \(Qualified Charitable Distribution\)](#)

Tags

[tax implications](#)

[RMD](#)

[QCDs](#)

[Qualified Charitable Distributions](#)

Add new comment

Your name

Comment

[About text formats](#)

Subject

CAPTCHA



What code is in the image?

Enter the characters shown in the image.

This question is for testing whether or not you are a human visitor and to prevent automated spam submissions.

Save

Preview