

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
<b>Current Year</b>	<p><b>Status:</b> Holds 401(k) funds.</p> <p><b>Goal:</b> Wants to satisfy RMD tax-free via a QCD.</p>	Requests rollover of 401(k) balance to an IRA.	<p>? <b>STOP</b> ?</p> <p>“First Dollars Out Rule” applies. You <b>must</b> take your taxable RMD in cash <i>before</i> rolling over the rest.</p>	<p>? <b>Taxable Income Increased</b></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><b>YEAR 1: The “Setup” Year (Before Dec 31)</b></p>	<p><b>Status:</b> Holds 401(k) funds.</p> <p><b>Goal:</b> Prepare for future tax-free giving.</p>	<p>Completes a full, tax-free rollover from 401(k) to an IRA.</p>	<p>? <b>GO</b> ?</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><b>YEAR 2: The “Giving” Year (Starting Jan 1)</b></p>	<p><b>Status:</b> Holds IRA funds.</p> <p><b>Goal:</b> Satisfy new year’s RMD tax-free.</p>	<p>Donor directs IRA custodian to send a QCD directly to charity.</p>	<p>? <b>GO</b> ?</p> <p>Funds are coming from an IRA. The distribution counts toward the RMD.</p>	<p>? <b>Zero Tax Liability</b> ?</p> <p>RMD is satisfied without increasing taxable income.</p>

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