

Qualified Charitable Distributions (QCDs): A Smart Way to Give

A Qualified Charitable Distribution (QCD) allows individuals age 70½ or older to donate directly from their IRA to a qualified charity. This strategy can provide significant tax benefits while supporting causes you care about.

Key Benefits

- Reduce taxable income: QCDs are excluded from your taxable income.
- Satisfy Required Minimum Distributions (RMDs): QCDs count toward your annual RMD.
- Potentially lower Medicare premiums and Social Security taxation by reducing adjusted gross income (AGI).
- No need to itemize deductions to receive the tax benefit.
- Support charities you care about in a tax-efficient way.

Important Rules

- You must be at least age 70½ at the time of the distribution.
- Funds must be transferred directly from the IRA to a qualified 501(c)(3) charity.
- Annual QCD limit: up to \$100,000 per person (indexed periodically).
- QCDs can only come from IRAs (not 401(k)s unless rolled into an IRA first).
- You cannot also claim the donation as an itemized charitable deduction.

Example

Jane, age 74, must take a \$25,000 RMD from her IRA. Instead of receiving the full amount and paying tax on it, she directs \$10,000 to a qualified charity as a QCD. Only \$15,000 is included in her taxable income, while the charity receives the full \$10,000.

Planning Tip

QCDs can be a powerful planning tool for retirees who are charitably inclined. They are especially beneficial for taxpayers who take the standard deduction and would otherwise receive no tax benefit from charitable giving.

Always consult your tax advisor to determine whether a Qualified Charitable Distribution fits your financial and tax planning strategy.