IRA Qualified Charitable Distribution (QCD)

A **qualified charitable distribution (QCD)** is a distribution from an IRA made directly to an eligible charity, bypassing the owner of the account. Owners of individual retirement accounts who are at least age 70 1/2 can contribute some or all of their IRAs to charity.

But why would they want to do that after making contributions for years in anticipation of the day when they would retire? Because it can be advantageous from a tax perspective in a few ways.

Required Minimum Distributions

You *must* begin taking **required minimum distributions (RMDs)** when you reach age 70 1/2 if you have a traditional IRA, even if you don't want or need the money at that point in time. These distributions are taxable at ordinary income rates—whatever tax bracket you're in that particular year.

It gets worse if you fail to take RMDs. In most cases, you'll have to pay a 50% excise tax on the amount you were supposed to take but didn't, even though you never enjoyed the use of that money.

How a Qualified Charitable Distribution Can Help

QCDs count toward your required minimum distribution for the year. If you have to take RMDs but you don't really want or need the money, QCDs can be a good way to distribute the minimum required amount out of the IRA and avoid that 50% excise tax penalty. You'll also avoid paying income tax on the distributions.

Effect on Adjusted Gross Income

Because income from a charitable distribution "bypasses" the taxpayer's 1040, QCDs can be used to help keep your adjusted gross income (AGI) and taxable income within a desired range. This can help prevent your income from reaching the thresholds for the net investment income tax.

The Rules Are Different for Some IRAs

This rule applies only to traditional IRAs, not to Roth IRAs. Although it's possible to take a QCD out of a Roth IRA, there's generally no advantage in doing this because Roth IRA distributions are typically already tax-free. The more tax-efficient move would be to use a traditional IRA to fund the QCD.

QCDs can't come out of SEP IRA or SIMPLE IRA plans, either.

If you have basis in a nondeductible traditional IRA, any QCDs you make are considered to come out of taxable IRA funds first. Normally, distributions are split proportionately between taxable funds and nontaxable basis.

You Can't Claim a Deduction, Too

The key benefit of a QCD is that the distribution amount is not included on your Form 1040 as income. That's a good thing, but there's a bit of a downside, too. The QCD cannot also be used as a deductible charitable contribution if you itemize your deductions. That would be something of a double tax break for the same transaction.

And as a practical matter, the Tax Cuts and Jobs Act effectively doubled standard deductions for all filing statuses beginning in 2018, so itemizing might be less advantageous for some taxpayers now than it was in previous years anyway. You would need more in overall itemized deductions than the standard deduction for your filing status to make itemizing worthwhile.

Effect on Standard Deductions

QCDs can benefit seniors who take the standard deduction rather than itemize because there's no tax benefit anyway in making a donation to charity when you claim the standard deduction. You're not losing anything by making the QCD. For non-itemizers, donating to charity via a direct transfer out of an IRA is the only way to get a tangible tax benefit from their donation.

Qualifying Rules for QCDs

You must be at least 70 1/2 years old at the time you make a qualified charitable distribution. The funds must be directly transferred from the IRA custodian to the eligible charity—and "eligible" is an important word here.

The IRS indicates that it's acceptable procedure for the IRA custodian to make a check payable to the charitable organization and let the IRA owner deliver the check to the charity.

The charity must be one that is approved by the IRS. You can't simply turn the money over to your neighbor. Eligible charities include 501(c)(3) organizations and houses of worship. Donor advised funds and so-called supporting organizations are not permitted to receive QCDs on a tax-advantaged basis.

The IRS offers a searchable database of approved charities on its website.

The maximum amount that can be donated through a qualified charitable distribution is $100,000 per IRA owner as of 2019. This means that each spouse can donate $100,000 if you're married, but you can't "share" the limit. In other words, one spouse can't give $125,000 and the other $75,000. You're each separately subject to the $1,000 limit.

Tax laws change periodically and the above information may not reflect the most recent changes. Please consult with a tax professional for the most up-to-date advice. The information contained in this article is not intended as tax advice and it is not a substitute for tax advice.