



## WHAT YOU NEED TO KNOW

# Qualified Charitable Distributions

### What is a Qualified Charitable Distribution (QCD)?

A Qualified Charitable Distribution, or QCD, is a tax-free donation from your Individual Retirement Account (IRA) to a charitable organization. To qualify, you must be 70 ½ or older. Aside from supporting charities, QCDs have notable benefits compared to ordinary charitable contributions that could significantly reduce your overall tax bill.

### How QCDs Work

Anyone who meets the age requirement can opt to make a QCD; however, if you are required to take distributions from your IRA, a QCD can help reduce what you pay in federal taxes. QCDs may be issued from IRAs and Inherited IRAs. SEP & SIMPLE IRAs are also eligible so long as they are inactive (meaning contributions are no longer being made). Employer plans, such as 401(k)s, are not eligible for QCDs.

The gift must be made directly from your IRA to the eligible charity. The IRA owner cannot receive the funds and then write a check.

### Key Takeaways

- QCD is a tax-free distribution directly from your IRA to a qualified 501(c)(3) organization
- Must be age 70 ½ or older
- A QCD is NOT included in your taxable income
- Counts toward your required minimum distributions (RMDs)
- Maximum contribution limit is \$100,000, indexed annually for inflation

Not all charities qualify for QCDs. A charity must be a 501(c)(3) organization that is eligible for tax-deductible contributions. Donor-advised funds and private foundations are not qualifying charities.

Qualified charitable distributions can lower your tax liability in two ways:

**Lower Taxable Income:** Unlike regular withdrawals from your IRA, QCDs are not counted as taxable income. Instead, QCDs can be deducted from your gross income on your tax return.

However, they cannot also be claimed as an itemized charitable deduction. A lower gross income may reduce your total taxes, including the income tax you pay for social security benefits. Additionally, a lower gross income could potentially reduce surcharges on Medicare premiums.

### **Count toward your Required Minimum Distributions (RMDs):**

Taking RMDs from traditional IRAs increases your taxable income and, depending on your situation, can push you into a higher tax bracket. Since QCDs count toward your annual RMD, they could fulfill all or part of your RMD without increasing your taxable income.

### **Filing Taxes with a QCD**

Your IRA custodian reports a QCD as a normal distribution on IRS Form 1099-R for a non-inherited IRA. It will be reflected as a death distribution for inherited IRA accounts.

There is not a code indicating a QCD on your tax form. Ensure you receive an acknowledgment letter from the charity for your gift and notify your tax professional of your annual QCD amount. This will ensure it is correctly reported on your income tax return and that you do not pay taxes on your QCD amount.

### **Working with your DCM Advisor**

We're happy to assist you in evaluating how QCDs fit into your financial planning. If you are thinking about making a QCD or have any questions about how this giving option can benefit you, please contact your DCM Advisor.

We strive to support you however we can and guide you toward financial success.

*The following page details how taking a QCD reduces taxable income.*

### A portion of annual RMD is taken as a QCD

Annual RMD \$15,000	QCD \$10,000	<b>Result</b> Remaining \$5,000 RMD will count toward taxable income
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### Entire annual RMD is taken as a QCD

Annual RMD \$15,000	QCD \$15,000	<b>Result</b> Full RMD is satisfied by QCD. Taxable RMD income is \$0 rather than \$15,000
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### Entire annual RMD is taken as a QCD, and additional amount donated

Annual RMD \$15,000	QCD \$20,000	<b>Result</b> Full RMD is satisfied by QCD. Taxable RMD income is \$0 rather than \$15,000.  IRA balance is further reduced, potentially reducing future RMD amounts.
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