

Qualified Charitable Distributions (QCDs)

What is a Qualified Charitable Distribution (QCD)

A Qualified Charitable Distribution (QCD) is a strategy available to anyone that is over the age of 70 ½ and has an Individual Retirement Account (IRA).

The current law regarding QCDs allows for a **tax free distribution** from an individual's **IRA account** as long as that distribution goes directly to a public 501(c) 3 organization. The benefit of this distribution going *directly* to public charity is that **the outflows count towards the accounts owner's annual required minimum distribution** (after age 72) and avoids being recognized as ordinary income and thus taxed at the donors marginal tax rate.

QCD Eligibility Rules



The taxpayer must be at least 70 ½ when the distribution is made



Distributions must come from an IRA. Company sponsored retirement plans are not eligible for QCDs



The organization receiving the funds must be a qualified charity



QCDs cannot be made to a Donor Advised Fund (DAF) or Private Family Foundation



The current limit for QCD distributions are \$100k per year, per spouse



QCDs must be completed by December 31st to be counted for that particular tax year

History of QCDs

Qualified Charitable Distributions (QCDs) were established by a provision in the Pension Protection Act of 2006



President Bush signs the Pension Protection Act of 2006 into law - August 17, 2006

After rules regarding QCDs were established in 2006, congress voted several times to extend the QCD provision for terms ranging between one and two years

- 1 Public Law 110-343
- 2 Public Law 111-312
- 3 Public Law 112-240
- 4 Public Law 113-295

In 2015, Congress passed the **Protecting Americans from Tax Hikes Act of 2015** which made the QCD provision permanent



Logistics of QCDs



Cash **must be sent directly** from your IRA **to the public 501(c) 3**.

The financial institutions that hold your IRA account (s) do not report your QCDs as tax-free charitable withdrawals. These withdrawals show up as taxable distributions on the Form 1099-R which is produced by the financial institutions. It is your responsibility to make sure your tax preparer identifies how much of the money withdrawn from your IRA account is a Tax Free QCD



Consider getting a checkbook added to your IRA which will allow you to write checks directly to charity. A separate checkbook will help you track any distributions from your IRA to charity which is not a taxable event



Any money donated from your IRA via the QCD transfer is not eligible for a charitable contribution and therefore **will not be recorded** as an itemized deduction on your Schedule A



Benefits of QCDs



Reduce the amount of social security benefits that are taxed each year



Lower your Modified Adjustment Gross Income (MAGI) which is used to calculate additional monthly premiums for Medicare Part B & D



Become eligible for certain tax credits and impact potential Net Investment Income Tax



Contribute to your annual Required Minimum Distributions



Deduct more itemized medical expenses on your tax return



If you take the standard deduction you are better off for tax purposes doing a QCD as you are not able to benefit from itemizing your charitable contributions



QCDs do not count towards the overall annual charitable deduction limits

Sources

- <https://crsreports.congress.gov/product/pdf/IF/IF11377/2D>
- Section 1201 of the Pension Protection Act of 2006 (P.L. 109-280)
- P.L. 110-343, P.L. 111-312, P.L. 112-240, P.L. 113-295
- The Protecting Americans from Tax Hikes (PATH) Act of 2015 (Division Q of P.L. 114-113)
- <https://georgewbush-whitehouse.archives.gov/news/releases/2006/08/20060817-1.html>

