What is a qualified charitable distribution?

Use QCDs to manage your required minimum distributions from an IRA.

A qualified charitable distribution (QCD) allows individuals who are 70½ years old or older to donate up to $100,000 total to one or more charities directly from a taxable IRA instead of taking their required minimum distributions. As a result, donors may avoid being pushed into higher income tax brackets and prevent phaseouts of other tax deductions, though there are some other limitations.

How do qualified charitable distributions work?

Understanding qualified charitable distributions begins with understanding required minimum distributions. People who hold Individual Retirement Accounts (IRAs) are required to take RMDs each year beginning at age 73—even if they do not need or want the funds. That same required minimum distribution increases the IRA holder's total taxable income.

This income increase could potentially push the taxpayer into a higher income tax bracket. It can also trigger *phaseouts*, which limit or eliminate some kinds of tax deductions, such as personal exemption and itemized deductions, and sometimes trigger high taxes on Social Security income.

How QCDs Work: QCDs are also called IRA charitable distributions or IRA charitable rollovers. They enable individuals to fulfill their required minimum distribution by a direct transfer of up to $100,000 to charity. They can also be used support multiple charities, if the sum of the distributions is within the $100,000 limit. But because QCDs do not increase taxable income, both higher tax rates and phaseouts can be avoided.

In addition, because QCDs reduce the balance of the IRA, they may reduce required minimum distributions in future years. QCDs are also not counted toward the *maximum amounts deductible* for those who itemize their giving on their taxes—the $100,000 can be above and beyond those limits. For these reasons, a QCD can potentially enable a donor to give a bigger charitable gift than they could if they just donated cash or other assets. Learn more about *charitable tax strategies*.

How QCDs are made: Qualified charitable distributions are made directly to the eligible charity from a traditional IRA, inherited IRA, inactive Simplified Employee Pension (SEP) plan and inactive Savings Incentive Match Plan for Employees (SIMPLE) IRAs. (Inactive SEP and SIMPLE IRAs are accounts that no longer receive employer contributions.)

The money is a direct transfer to the charity that never passes through the hands of the IRA holder. Instead, the IRA custodian can either send an electronic transfer of funds or a check directly to the charity.

For a QCD to count toward your minimum annual IRA distribution, it must be made by the same deadline as a normal distribution, which is usually Dec. 31 of the tax year in question.

Who can make a qualified charitable distribution?

An individual donor can contribute up to $100,000 per year in QCDs, if that individual is 70½ years old or older. For married couples, each spouse can make QCDs up to the $100,000 limit for a potential total of $200,000.

The $100,000 per person limit applies to the sum of all QCDs taken from all IRAs in a year. A donor can make one large contribution or several smaller contributions over the course of the calendar year. Remember that QCDs can be made from any or more than one of the IRA types (traditional, inherited, inactive SEP and inactive SIMPLE IRAs) noted above.

Type of charity that can receive a QCD

Qualified charitable distributions can be made only to certain qualified charitable organizations, as defined in the tax code.

Currently, QCDs cannot be made to donor-advised fund sponsors, private foundations and supporting organizations, though these are categorized as charities. NOTE: Donors should check before making a gift to ensure the organization is qualified to accept QCDs.

Tax limitations of QCDs: A donor can make a qualified charitable distribution that exceeds the individual's required minimum distribution for a given year; however, that extra distribution cannot be carried over—i.e., used to meet the minimum distributions for future years. This contrasts with other strategies, such as a donation of cash and appreciated securities, where a large donation can be made in one year and the tax benefits can be *carried forward*. It also differs from contributions to a *donor-advised fund* or foundation, which can also allow you to front-load giving in a high-income year and use those funds support charities in the future.

Additionally, donors cannot receive any benefit for making a qualified distribution to a charity. So, for example, a QCD cannot be used to purchase something in a charity auction or purchase tickets for a charity golf tournament.

State tax rules on QCDs vary, so donors using charitable distributions should consult a tax advisor to understand the impact on state tax liabilities.

Recipient limitations of QCDs: One additional and relevant limitation of QCDs is that they cannot be used to support every type of charity; certain charities do not accept them, as noted above.

Does a QCD make sense for me?

A QCD can provide several potential benefits. It may be a suitable giving strategy for donors who:

- Are required to take a minimum distribution from an IRA, but do not need the funds and would face increased tax liabilities if they took the distribution as income.
- Would like to reduce the balance in an IRA to lower future required minimum distributions.
- Would like to make a larger charitable gift than they could if they simply donated cash or other assets. The value of charitable gifts that can be deducted from a tax return usually ranges from 20 to 60 percent of the donor's adjusted gross income. This AGI-based limit does not apply to QCDs, allowing donors to make larger gifts.
- Do not wish to make their contribution to a foundation or donor-advised fund.
- Have identified which charities they want to support immediately with a substantial gift.

When might a qualified distribution not be effective?

Although qualified charitable distributions can be a good option in the right circumstances, they may not be the best charitable giving strategy for everyone. For example, if you have securities that have grown in value since you bought them, it may make more sense and provide greater tax benefit to donate them to charity instead of taking a QCD.

Additionally, if you prefer to take a tax deduction in the current year and then support charities over time, as you can when you contribute to a donor-advised fund, a QCD may not be the right option.

If you are considering a large charitable donation, a CPA or financial advisor can help you minimize your tax liability and maximize the value and impact of your gift by choosing the right strategy or combination of strategies for your situati