

QCD: A Little-known Tax Strategy for IRA Donations

A **Qualified Charitable Distribution (“QCD”)** is a tax-smart gifting opportunity for anyone 70 ½ and older who has more retirement funds than needed to meet their income needs. The ability to donate on a pre-tax basis to qualified charities—whether or not you itemize deductions—makes IRAs that are subject to a Required Minimum Distribution a great source of funds for gifts to the Society.

A QCD allows you to give up to \$100,000 tax-free each year directly to a qualified charity from your traditional IRA after you turn age 70 ½.

Any QCD counts towards satisfying your IRA Required Minimum Distribution (“RMD”) for the year in which you make your gift. You can donate part of your RMD to charity and withdraw the balance as retirement income or you can give more than your calculated RMD each year—up to an annual limit of \$100,000—and completely avoid paying income tax on these monies.

To qualify for the tax break and make your charitable gift with pre-tax dollars, any QCD distribution must be transferred directly from your IRA to a qualified charitable institution. Note that you cannot receive anything of value as a result of your donation. For example, you cannot get tickets to a charitable event in return for your QCD gift.

Are you a good candidate to make a Qualified Charitable Distribution?

If you can afford to donate IRA monies to a favored charity, then you could benefit tax-wise if you meet one or more of the following situations:

- Many retirees take the standard deduction when calculating their income tax liability because they don’t generate enough deductible expenses or income to make itemizing worthwhile. As a result, they could be losing out on the tax advantages of deducting their charitable donations. Using the tax-free IRA QCD provision as a way to make charitable contributions would allow you to obtain a tax benefit from your contribution regardless of whether you itemize or take the standard deduction.
- Monies donated through a QCD count both towards your IRA RMD and as a charitable gift. While your QCD gift will not be listed as a deduction on Schedule A of your tax return, any QCD amount that satisfies your IRA RMD will reduce your Adjusted Gross Income (“AGI”) for the tax year in which your donation is made. A lower AGI could potentially reduce your income tax bracket and lower the odds that you will be affected by various unfavorable AGI-based tax rules—such as those that cause you to pay more for Medicare, subject your investment income to an additional 3.8% Medicare surcharge, or result in lower tax-deductibility of rental expenses.
- When individuals have made non-deductible contributions to their traditional IRAs, the taxability of RMDs are calculated proportionately from taxable and non-taxable funds. In the case of a QCD, a preferential rule treats QCD gifts as coming first from taxable funds, thus increasing the tax benefit of donor gifting.

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