

*This information is not intended as legal or tax advice.
For such advice, please consult an attorney or tax advisor.*

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What is a Qualified Charitable Distribution?

Retirees with certain IRA accounts must begin withdrawing when they reach 70½ or older. These Required Minimum Distributions (RMDs) are taxed as ordinary income, and if you don't take your RMD, you'll get a penalty. Transferring money from your IRA to a qualifying charity in lieu of taking an RMD can be a tax-efficient way of meeting your RMD and satisfying your charitable giving objectives. This is known as a Qualified Charitable Distribution (QCD).

Rules for Making QCDs

- You must be at least 70 ½ years old.
- QCDs can be made to multiple charities within a single tax year, for up to \$100,000. The threshold for married couples filing jointly is twice that amount.
- The QCD must go to a charitable organization that accepts tax-deductible contributions (i.e. a 501(c)(3) organization), that does not benefit you (the donor) in any way.
- The QCD must come directly from your retirement account. **That means your IRA custodian makes the distribution from your IRA payable to a qualifying charity.** If you withdraw funds and try to make a charitable donation, that won't be considered a QCD.
- If you want a QCD to satisfy your RMD, transfer funds from your IRA by the end of the year. Amounts above what you're required to withdraw can't count as a RMD for the following year.

How QCDs Affect Your Tax Bill

With the exception of Roth IRAs, most IRAs are subject to RMDs. But the money you give to charity via a QCD isn't considered part of your taxable income. In other words, you can lower your federal income tax by making a QCD. To find out how a QCD might affect your state income tax bill, you'll need to consult your tax advisor.

Final Word

Make a note of your QCD on your income tax return. You can do that by reporting the taxable amount of the RMD you received (total RMD less distributions taken as QCDs). If all of your distributions were QCDs, you can indicate that the taxable amount is zero and enter "QCD".

If you make a QCD, hold onto the receipt from the charity you donated to, in case you need that information for tax purposes. Your IRA custodian will report your QCD to the IRS (using Form 1099-R) as either a normal distribution (if it's from an IRA you didn't inherit) or a death distribution (if it's from an inherited IRA).