

Qualified Charitable Distributions – Rules for Tax Free Donations

If you have money or investments in an IRA and have reached 70 ½ years of age, you are subject to a Required Minimum Distribution (RMD) of an IRS mandated amount each year. If you fail to withdraw that amount you are subject to a penalty on your tax return.

Using a Qualified Charitable Distribution (QCD) you can make tax free donations to your favorite charities.

How does a Qualified Charitable Distribution (QCD) work?

1. You must be at least 70 ½ when the donation is made to a qualified charitable organization.
2. The amount contributed can count as part of your annual Required Minimum Distribution (RMD).
3. The amount donated must be paid directly by the trustee of your IRA to the charitable organization. You cannot receive the money or it does not qualify.
4. The donation cannot be from a SEP or a SIMPLE IRA and cannot be considered a Donor Advised Fund.
5. The maximum amount an individual can donate as a QCD for any tax year is \$100,000.
6. The amount you donate goes directly to the organization and you pay no tax on the donation. However, you cannot claim a charitable deduction on your tax return for this donation because it was never taxed.

Why would I make a Qualified Charitable Distribution (QCD) instead of a regular charitable donation?

1. The money from your IRA is usually taxable income at your marginal tax rate for the tax year.
2. When you donate to a charitable organization, you can take an Itemized Deduction for the amount donated (if you itemize deductions on your tax return) which reduces your taxable income.
3. Some people no longer need to itemize when they are retired, so they do not get any reduction in taxable income on their tax return for the charitable donation.
4. Some people are subject to limits on itemized deductions due to the level of income and other deductions on the return. They will only get a partial reduction in income on their tax return for the charitable donation.
5. The Qualified Charitable Distribution (QCD) gets 100% of your donation to the charity of your choice without any tax liability to you.

Example: Assume your marginal tax rate is 18% and you take a \$1,000 distribution from your IRA. In this example the individual did not itemize deductions on their tax return.		
Distribute \$1,000 from an IRA to donate to a charitable organization	Qualified Charitable Distribution (QCD)	Normal Retirement Distribution
Amount taken from the IRA account	1,000	1,000
Tax withheld or due when filing your tax return	0	180
What it cost you to make the \$1,000 donation	1,000	1,180

If you have questions on any of these matters, talk with your CPA or tax advisor to clarify how these rules relate to your personal tax situation.

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