

Qualified Charitable Distributions—A Tax-Free Way to Support Your Favorite Charities

By Gary Falxa and Jim Froland

You may have seen a notice in EcoNews about using funds from an IRA (Individual Retirement Account) to make a gift to the NEC, without paying income tax from the IRA withdrawal. One of us tried that recently, and we decided to share what was learned in the process. If you are of age 70½ or older and have an IRA, you should know about a way to make a non-taxable donation to charitable organizations, such as the NEC and its member organizations. The way is a “Qualified Charitable Distribution” (in IRS parlance, or QCD). A QCD is a transfer of funds from your IRA, paid directly from the IRA to a qualified charity. Amounts distributed as a QCD can be counted toward satisfying your IRA’s required minimum distribution (RMD) for the year, and importantly, QCD’s are excluded from your taxable income. This is not the case with a regular withdrawal from an IRA—even if you then use that money to make a charitable contribution. If you take a withdrawal from the IRA, the funds would be counted as taxable income even if you later offset that income with the charitable contribution deduction. QCD’s are not counted as taxable income.

Bottom line: If you are considering a contribution to a charity, have an IRA, and are 70½ or older, a QCD can both reduce your taxable income and help support that charity. This is particularly helpful if the contribution would not be tax-deductible for you.

While we recommend that you do your own research about whether this is for you, and talk with your financial advisor, broker, and/or the institution where your IRA is held, here are some QCD basics:

- You must be at least 70½ years old at the time you request a QCD. If you process a distribution prior to reaching age 70½, the distribution will be treated as taxable income. Note that while the age at which RMDs are required is greater than 70½ for some of us, you can still do a QCD at the age of 70½, even if you aren’t yet required to take a required minimum distribution.
- Traditional IRAs are eligible. If you have a SEP IRA or SIMPLE IRA, check with your experts--you may be able to do a QCD, if the plan is “inactive” (you no longer contribute to the plan, including for the year in which the QCD is being considered).
- Since distributions from Roth IRAs are already non-taxable, QCDs are not used with Roth IRAs.
- The recipient charity must be a 501(c)(3) public charity (this includes NEC and its member groups)
- Funds must be transferred directly from your IRA custodian to the qualified charity. Do this by requesting your IRA custodian issue a check from your IRA payable to the charity. You can then request that the check be mailed to the charity, or forward the check to the charity yourself. If a distribution check is made payable to you, the distribution would NOT qualify as a QCD and would be treated as taxable income.
- For a QCD to count toward your current year's RMD, the funds must come out of your IRA by your RMD deadline, which is generally December 31.
- You cannot receive any benefit in return for your charitable donation.
- The maximum annual donation for QCDs is \$100,000 (something most of us don’t have to worry about!)
- By reducing your taxable income, QCDs may have other benefits. For example, it could lead to a lower tax bracket, or avoiding a reduction in Social Security benefits.

- Unfortunately, tax code does not allow QCDs from any other employer-sponsored plan such as 401(k) or 403(b) plans.

This IRS website has more information (scroll down a bit): <https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-iras-distributions-withdrawals>

Some brokerage firms also have information on QCDs. Here is one example:
<https://www.fidelity.com/learning-center/personal-finance/retirement/qcds-the-basics>

If interested, please check with your financial advisor, broker or IRA financial institution to find out whether a Qualified Charitable Distribution would work for you.