

Navigating Qualified Charitable Distributions in 5 Easy Steps

What is a qualified charitable distribution (QCD)?

A QCD is a distribution from an IRA that goes directly to a qualifying charity and is not included in the taxable income of the IRA owner. A QCD cannot be made from an employer plan. A QCD can be up to \$100,000 a year, per individual.

- 1. Either an IRA owner or a beneficiary can do a QCD.** The individual *must* be at least age 70 ½ at the time of the transaction. Reaching age 70½ later in the year is not enough. Both spouses can do a QCD when each spouse does the QCD from their own IRA.
- 2. A QCD can be made from an IRA, an inactive SEP or SIMPLE IRA, or a Roth IRA.** Only pre-tax amounts can be used for a QCD, which makes the use of Roth funds very unlikely. The QCD must be a direct transfer to a qualifying charity. A check payable to the charity but sent to the IRA owner will qualify as a QCD, as will a check written from a “checkbook IRA” to a qualifying charity. If an IRA owner receives a check payable to them from their IRA and then later gives those funds to charity, that is not considered a QCD.
- 3. A charity must be a qualifying charity.** It cannot be a donor-advised fund or a private foundation. A gift to a charitable gift annuity will also not qualify. A QCD to a charity where the IRA owner has an outstanding pledge will qualify and will not create a prohibited transaction. The QCD must satisfy all charitable deduction rules. If a distribution to a charity is more than \$100,000, the amount over \$100,000 is taxable to the IRA owner and is deductible on the owner's income tax return. The excess amount cannot be carried over to a future tax year.
- 4. A QCD can satisfy a required minimum distribution (RMD).** It is not limited to the amount of the RMD, but is capped at \$100,000 a year. If an RMD is more than \$100,000, any amounts in excess of the QCD are taxable to the IRA owner.
- 5. The IRA custodian has no special tax reporting for a QCD.** The QCD will be reported on Form 1099-R as a regular distribution. The IRA owner will include the QCD amount on line 15a of Form 1040. On line 15b, they will exclude the amount of the QCD and put the letters QCD on that line. The amount of the QCD is thus excluded from the owner's taxable income. The IRA owner also cannot take a charitable deduction for the QCD amount.

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