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Qualified Charitable Distributions

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For certain clients who are charitably inclined, a Qualified Charitable Distribution (QCD) can be among the most effective ways to give to charity. As we move into the second half of the year, many clients who sometimes do not need their entire Required Minimum Distribution (RMD) may want to consider using QCD's as part of their year-end planning.

The passage of the SECURE Act in 2019 increased the standard deduction, making it more difficult for some individuals to benefit from charitable contributions since they can no longer be itemized if taking the standard deduction. A QCD does not require that you itemize, so you can take advantage of the higher standard deduction, but still benefit from charitable gifting.

A QCD is a direct transfer of IRA assets to a qualified charitable entity, where the distribution amount is not included as taxable income. Amounts distributed as a QCD can count toward satisfying your Required Minimum Distribution (RMD) for the year, up to $100,000 (even if your RMD requirement is less than $100,000).

QCDs are only available to individuals over age 70½. These can be made from Traditional IRAs, Inherited IRAs, or inactive SEP or SIMPLE plans. It's important to note that QCDs cannot be made to donor advised funds or private foundations.

The key to a QCD is that the IRA distribution must be made directly to charity. If you take your RMD and then make a charitable contribution, your RMD will still be taxed as ordinary income, since the funds were distributed to you.

All three of our custodians (Fidelity, Charles Schwab, TD Ameritrade) now allow checkbooks to be issued on IRAs, so clients who want to do all their gifting from their RMD throughout the year can simply write checks. For clients who may not want another checkbook, we ask that they contact the office and let us know of their QCD plans, and we can prepare the paperwork for checks to be issued directly to the charity.

Note that QCDs are not tracked by the custodian and will not be coded as such on your Form 1099. It is important to keep track of your QCDs so that you can account for them when filing taxes. Much like an RMD, QCDs must be made by December 31.

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If you would like additional information about QCDs, please do not hesitate to reach out to our office.

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