

All About Qualified Charitable Distributions

Amanda Dixon AUG 20, 2018



When you're ready to tap into your retirement accounts, it's best to avoid doing so haphazardly. If you're strategic, your savings may last throughout the course of your lifetime. If you have an individual retirement account, you can take your distributions in the form of cash. You may also be eligible for qualified charitable distributions. Read on to find out what that means.

What Are Qualified Charitable Distributions?

A qualified charitable distribution (QCD) is the withdrawal of funds from an IRA with the intention of donating them directly to a qualified charity. There are tax benefits that go along with this strategy. And you can use QCDs when you're taking [required minimum distributions](#) (RMDs) in retirement.

You may qualify for a QCD if you have a traditional IRA, an inactive SIMPLE IRA (meaning you and your employer are no longer contributing to the account during the

same tax year that you're making a charitable contribution), an inactive SEP-IRA or an inherited IRA. But certain rules apply.

Making qualified charitable distributions from Roth IRAs is usually a bad idea (and it's usually prohibited). Why? For one thing, a QCD must be a distribution that would normally be subject to taxation. Roth IRA distributions are usually tax-free.

Your Roth IRA may be eligible for a QCD if you're willing to pay taxes on your withdrawals. But if you wouldn't otherwise owe the IRS money, agreeing to pay taxes on Roth IRA distributions doesn't make sense.

Rules for Making Qualified Charitable Distributions



You can't qualify for QCDs unless you can meet certain requirements. For example, you can't make a qualified charitable distribution unless you're at least 70.5 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 as high (so that \$100,000 in each spouse's IRA can be eligible for a QCD).

In order to get credit for a qualified charitable distribution, it must go to a charitable organization that accepts tax-deductible contributions (i.e. a 501(c)(3) organization). And it can't benefit you (the donor) in any way. Charities that cannot receive QCDs include private foundations, [donor-advised funds](#) and groups that support tax-exempt charities.

What's more, a qualified charitable distribution can only come directly from your retirement account. That means your IRA custodian needs to make the check from your IRA payable to a qualifying charity. If you withdraw funds and then try to make a charitable donation, that won't be considered a qualified charitable distribution.

Using QCDs to Satisfy Required Minimum Distributions

Forgot the rules for RMDs? Here's a quick refresher. Retirees with certain accounts must begin pulling out their savings when they reach a certain age (i.e. 70 1/2). Withdrawals are taxed as ordinary income. If you don't take your RMDs, you'll get hit with a 50% penalty.

If you want a QCD to satisfy your required minimum distribution, you'll need to transfer funds from your IRA by the end of the year. Any amount above what you're required to withdraw can't count as a RMD for the following year. For example, let's say your annual RMD is \$20,000 and you make a \$25,000 QCD for 2017. The extra \$5,000 can't go toward your RMD for 2018.

How QCDs Affect Your Tax Bill



With the exception of Roth IRAs, most IRAs are subject to required minimum distributions. 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 bill](#) by making a qualified charitable distribution. To find out how a QCD might affect your state income tax bill, you'll need to contact a tax accountant.

If you make a QCD, it's best to hold onto the receipt from the charity you donated to, just 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).

By reducing your taxable income, QCDs can also reduce the amount of Social Security taxes you pay. They may also help you avoid the 3.8% Medicare surtax on investment income. The surtax applies to individuals with a modified adjusted gross income that exceeds a certain threshold. If it looks like you have less income subject to taxation, you may not have to worry about the surtax at all.

Final Word

Making a qualified charitable distribution from an IRA to a qualifying charity is one way to lower your tax bill. Such a move could be better than making a tax-deductible contribution since you won't get credit for a charitable donation if you don't itemize your deductions.

Don't forget to make a note of your QCD on your income tax return. You can do that by adding the amount you donated to the total amount of IRA distributions you took. If all of your distributions were QCDs, you can indicate that the taxable amount is zero and enter "QCD."

For more information on how that works, you can refer to your income tax return's instructions or talk to a financial professional with tax expertise. The [SmartAdvisor matching tool](#) can help you find a person to work with to meet your needs. First you'll answer a series of questions about your situation and goals. Then the program will narrow down your options from thousands of advisors to up to three registered investment advisors who suit your needs. You can then read their profiles to learn more about them, interview them on the phone or in person and choose who to work with in the future. This allows you to find a good fit while the program does much of the hard work for you.

Photo credit: ©iStock.com/Rinelle, ©iStock.com/monkeybusinessimages, ©iStock.com/kate_sept2004

AMANDA DIXON Amanda Dixon is a personal finance writer and editor with an expertise in taxes and banking. She studied journalism and sociology at the University of Georgia. Her work has been featured in Business Insider, AOL, Bankrate, The Huffington Post, Fox Business News, Mashable and CBS News. Born and raised in metro Atlanta, Amanda currently lives in Brooklyn.