

# Consider Qualified Charitable Distributions for Your Charitable Giving



**AS SOMEONE WHO IS PASSIONATE** about giving back to the community, I am always looking for ways to maximize the impact of charitable donations. If you are at least 70½ years old and have an Individual Retirement Account (IRA), and the charity you are donating to is a qualified 501(c)(3) organization, a Qualified Charitable Distribution (QCD) is a powerful tool that can provide significant benefits to both you as donor and the charity.

## A QCD OVERVIEW

Traditional IRAs and 401ks offer tax benefits to encourage saving for retirement. Your contributions are not taxed when you make them, and the earnings grow tax-deferred. However, distributions during your retirement years from those accounts are taxed as ordinary income in the year they are made. If you are charitably inclined, there is way to avoid paying federal income tax on at least some of those distributions. The solution is the QCD.

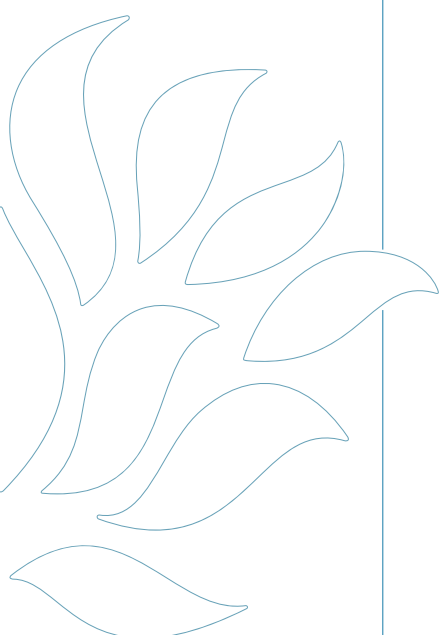
A QCD is a distribution from an IRA made directly to a qualified charity. QCDs were first introduced in 2006 as part of the Pension Protection Act, and they have become an increasingly popular way for individuals to donate to charity, primarily because they also provide a benefit to the donor in the form of tax savings. Generally, any distribution made from a Traditional IRA, including your annual required minimum distribution (RMD), is subject to federal income tax. The QCD is the exception. When you make a QCD, 100 percent of the distribution is excluded from your taxable income.

## HOW QCDs WORK

If you are at least 70½ years old and have a traditional IRA, you can instruct your IRA custodian to make a distribution to a “qualified” charity. QCDs cannot be made to donor-advised funds, supporting organizations, or private foundations, only to a 501(c)(3) charity. The distribution must be made directly to the charity, not to you first or to the bank, custodial, or other type of account where you usually have your RMDs deposited.

It is also important to note that QCDs are only available for traditional IRAs, not for Roth IRAs or other retirement accounts. However, while 401ks are not eligible for QCDs, you can rollover a 401k to an IRA tax free, then employ the QCD strategy.

QCDs can be effective tools for estate planning, allowing you to reduce the size of your IRA and potentially reduce the amount of estate tax that are owed when you die.



## HOW TO MAKE A QCD

Making a QCD is a relatively straightforward process. You simply contact your IRA custodian, provide the name and address of the charity and the amount of the donation, and request the distribution. There is no minimum amount to qualify as a QCD, and you can donate up to a maximum of \$100,000 annually through QCDs. You can also write a check directly from your IRA if your IRA custodian provides check-writing privileges.

Keep documentation of the QCD for tax purposes. You will receive a Form 1099-R from your IRA custodian showing the distribution. You should also receive a receipt from the charity showing the amount of the donation.

## TAX IMPLICATIONS OF QCDs

Because your QCD distribution/donation is excluded from your taxable income, it reduces your taxable income by the full amount of the donation. That can potentially lower your tax bracket and result in additional tax savings.

A QCD can also help to reduce the impact of the Medicare premium surcharge for individuals on Medicare. The Medicare Income-Related Monthly Adjustment Amount (IRMAA) is based on your modified adjusted gross income (MAGI). Making a QCD can reduce your MAGI and therefore reduce or help you avoid IRMAA.

QCDs can also be an effective tool for estate planning. By making a QCD, you can reduce the size of your IRA and potentially reduce the amount of estate tax that will be owed upon your death.

Overall, QCDs can provide significant benefits for both you as donor and the charity receiving your donation. QCDs allow you to satisfy your RMD obligations while also making a charitable donation, reduce your overall tax burden, and perhaps because of the tax savings allow you to provide even greater support to the causes that are important to you. For retirees considering charitable donations, I highly recommend exploring the benefits of QCDs as a way to maximize the impact of your giving.

### IMPORTANT DISCLOSURES

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