Qualified Charitable Distribution (QCD) from Traditional IRAs

Basics of Traditional IRAs

Traditional IRAs are excellent retirement savings vehicles in which money is invested on a pre-tax basis, i.e. the contribution to a traditional IRA reduces your adjusted gross income by the same amount for the tax year in which the donation is made. The invested funds grow tax-deferred until withdrawn. Upon withdrawal, the funds are taxed as ordinary income at your tax rate in the year of withdrawal.

You may begin to take withdrawals from your traditional IRA without penalty as early as age 59 ½. You are required to take minimum distributions (RMDs) by April 1 of the year following the calendar year in which the individual turns 73 or 75 depending on the year you were born.

Qualified Charitable Distributions (QCDs)

One of the lesser known and underappreciated facets of traditional IRAs is their use for making highly tax-efficient charitable donations called Qualified Charitable Distributions (QCD). If you are 70 ½ or older, you may transfer up to $111,000 per year directly from your traditional IRA to an eligible 501(c)(3) public charity, such as Fellowship Bible Church, without paying income tax on the withdrawal.

The tax advantages of making charitable donations via a QCD are:

- **Potential Double-Dip on Tax Benefits**. If you claim the standard deduction ($16,100 for single filers; $32,200 for joint filers), giving to charity provides no tax break. However, a QCD acts as an above-the-line exclusion from income. This means you get the full dollar-for-dollar tax benefit of your charitable gift while still claiming the maximum standard deduction.

- **Protect Your Income Tax Bracket.** Taking a normal RMD may add a significant amount of ordinary income to your tax return, which may push you into a higher marginal tax bracket. Because a QCD flows directly from the IRA custodian to an eligible 501(c)(3) charity, the money never enters your gross income and cannot push you into a higher tax bracket.

- **Prevents or Limits Medicare Premium Surcharges**. The government determines your annual Medicare Part B and Part D premium based on your Adjusted Gross Income (AGI). RMDs taken from your traditional IRA increase your AGI dollar-for-dollar, which may trigger an Income-Related Monthly Adjustment Amount (IRMAA) premium surcharge. A QCD of the RMD prevents any IRMAA surcharge from the RMD.

- **Reduce Social Security Taxation**. Up to 85% of your Social Security Benefits can become taxable depending on your "combined income." A QCD of your RMD will lower your "combined" income which may reduce the percentage of your Social Security benefits subject to federal income tax.

- **Minimize or Avoid Net Investment Income Tax and Itemized Deduction Restrictions.** A higher AGI may trigger the 3.8% Net Investment Income Tax (NIIT) or reduce the deductibility of itemized deductions. A QCD of any portion withdrawn from your traditional IRA may reduce or eliminate these adverse tax consequences.

The QCD has been available since 2006 on an annually renewable basis. In 2015, it was made a permanent part of tax law. In 2019 and 2022, it was expanded and modified index the annual limit to inflation. If you have a traditional IRA, are at least 70 ½ and make cash donations to charities, QCDs are a highly tax efficient way to make your donations.

<u>QCD Rules and Mechanics</u>:

- Must be at least 70 ½ on the day the distribution is made.
- Only traditional IRAs, Inherited IRAs, inactive SEP and SIMPLE IRAs qualify. Employer plans like 401(k)s and 403(b)s are excluded unless rolled over into a traditional IRA first.
- The recipient of a QCD must be a direct 501(c)(3) public charity. QCDs cannot be sent to Donor Advised Funds (DAFs), private foundations or supporting organizations.
- The maximum QCD limit in 2026 is $111,000. Spouses can each do up to $111,000 if they have separate traditional IRAs.
- You cannot claim a charitable deduction on your tax return for the QCD amount since the funds are already excluded from your gross income.
- A QCD exceeding your RMD cannot be carried forward to satisfy future years' RMDs.

- The custodian of your IRA must make a direct transfer to the 501(c)(3) using the charity's full legal name. You cannot have the funds sent to you and then you hand them over to the charity.
- If you write an IRA check for a QCD in late December, the charity must cash and clear it by December 31 to have it count toward that calendar year's RMD.
- You cannot receive any goods, benefits or services in exchange for the donation.
- The charity should provide a written acknowledgement confirming the date and total amount of the direct transfer.
- Check your 1099-R that your receive from your IRA custodian. It may not explicitly flag the distribution as a QCD. If so, you or your tax preparer must properly subtract the amount on your tax return to avoid paying taxes on it.
- Most large custodians, e.g. Fidelity, Vanguard, Schwab, etc. are very familiar with QCDs and have streamlined the process for making them.

Giving to Fellowship Bible Church with QCDs

[Work with William to lay out the process for FBC]

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