

QUALIFIED CHARITABLE DISTRIBUTIONS: A GIFTING ALTERNATIVE

BY CHRISTOPHER B. ANDERSON, CPA

For individuals that must take a required minimum distribution (RMD) from an IRA, making a qualified charitable distribution (QCD) may be a desirable option that avoids taxation of the distribution while supporting a charitable organization.

What is a QCD? A QCD is a direct transfer from an IRA to a charitable organization. To be eligible for a QCD, an individual must be at least age 70½. The QCD generally counts toward an individual's RMD for the year. The maximum QCD amount is \$100,000 per individual. If a couple is filing their tax return jointly, each spouse can make a QCD of \$100,000 or less.

Do all charitable organizations qualify as recipients of a QCD? No. QCDs cannot be made to private foundations, donor advised funds, or supporting organizations, which are entities that carry out their tax-exempt purposes by supporting other public charities. Before making a QCD, an individual should check with a tax advisor to ensure that the recipient organization is qualified to receive the funds. Note that an individual can give to multiple charitable organizations so long as the total of the QCDs does not exceed the limit of \$100,000.

What are the tax effects of making a QCD? Generally, the QCD amount is not taxable to the individual like a normal RMD is. The IRA owner will still receive Form 1099-R from the IRA custodian which reports the amount of the distribution. On Form 1040, the individual will show the distribution amount on Line 4a and \$0 on Line 4b for the taxable portion of the distribution. To the left of Line 4b, the designation "QCD" must appear.

The individual does not get a charitable contribution deduction for the QCD because he/she has already obtained the benefit of the IRA distribution being non-taxable. Although the charitable deduction is not available, the donor should obtain a letter from the charity acknowledging the gift, just as he/she would do for a tax-deductible donation.

Were the RMD rules recently changed? Yes. For distributions required to be made after December 31, 2019, the age for beginning an RMD is changed to age 72 for IRA owners reaching age 70½ after December 31, 2019. The required beginning date for IRA owners who have not reached age 70½ by the end of 2019 is April 1 of the year following the year of the owner's 72nd birthday. After the initial RMD, future RMDs must be taken by December 31 of each year.

Conclusion. Gifting funds from an IRA directly to a charity as a QCD presents a tax-efficient option to individuals who are charitably minded. Not only is the IRA distribution not taxed to the IRA owner, but one or more charitable organizations receive funds to support their programs. Before making a QCD, an individual should discuss the matter with a tax professional to ensure that the desired tax consequences are obtained.

Christopher B. Anderson is a shareholder at Maloney + Novotny LLC and has extensive expertise in not-for-profit tax matters. The firm of Maloney + Novotny serves as auditors of the Catholic Community Foundation.

