# Qualified Charitable Distributions

**James R. Hasselback**

A. QCDs Used to Lower RMDs

1. A donor 70½ years or older may give $100,000 per year to qualifying charities from the donor's IRA. Money donated to charity through a qualified charitable distribution (QCD) counts towards your RMD. The SECURE 2.0 Act allows the $100,000 limit to be adjusted annually for inflation (rounded to the nearest $1,000). The adjustments will begin in 2024.

B. QCD Reporting

1. The IRA owner will receive Form 1099-R from their IRA trustee that shows any IRA distributions made during the previous calendar year, including both regular distributions and QCDs. The total distribution is shown in Box 1 on that form. There is no special code for a QCD. Like other IRA distributions, QCDs are reported on Line 4 of Form 1040 or Form 1040-SR.

2. If part or all of an IRA distribution is a QCD, enter the total amount of the IRA distribution on Line 4a. This is the amount shown in Box 1 on Form 1099-R. Then, if the full amount of the distribution is a QCD, enter 0 on Line 4b. If only part of it is a QCD, the remaining taxable portion is normally entered on Line 4b. Either way, be sure to enter “QCD” next to Line 4b.

3. QCDs are not deductible as charitable contributions on Schedule A. But, as with deductible contributions, the donor must get a written acknowledgement of their contribution from the charitable organization before filing their return.In general, the acknowledgement must state the date and amount of the contribution and indicate whether the donor received anything of value in return.

C. Qualified Charitable Distribution Rules Eased

1. The new rule for qualified charitable distributions (QCD) from IRAs expands the types of “charities” that can receive the gift. Beginning in 2023, individuals can make a one-time gift of up to $50,000 (adjusted annually for inflation) to a charitable remainder unitrust, a charitable remainder annuity trust, or a charitable gift annuity.

2. A one-time QCD of up to $50,000 (smaller amounts that together total no more than $50,000 can be transferred during the same tax year) from a traditional IRA to a "split-interest entity" that will pay a fixed percentage (minimum 5%) for life to the donor and/or donor's spouse. A split-interest entity may be a charitable remainder unitrust, charitable remainder annuity trust or charitable gift annuity. The $50,000 cap will be indexed for inflation for tax years after 2023.

3. The transfer does not qualify for a charitable contribution deduction, but it also does not cause the donor to recognize income on the rollover and allows the donor to satisfy all or part of the donor's RMD. Amounts received by the donor or donor's spouse under the annuity are taxable as ordinary income. Effective for distributions made in tax years beginning after December 29, 2022.

4. Previously, distributions had to go to charities with a 501(c)(3) status. However, disbursements to private foundations or donor-advised funds still aren't allowed. Charitable remainder trusts and gift annuities provide income to a beneficiary during the grantor's life; when the beneficiary dies, what's left in the trust goes to a charitable cause.

5. Unlike a direct charitable contribution, contributions to a split-interest entity benefit not only the charity but also the individual IRA owner. The overall economic impact is that a portion of what's transferred goes to charity and up to 90% of the economic value of what's transferred (up to approximately $45,000 under the new rule) can be paid to the individual IRA owner over a selected term of years (not exceeding 20 years).

6. The key benefit of a QCD, which must be made from a taxable IRA by year's end, is that it counts toward a taxpayer's annual RMD. While no deduction materializes, the disbursement keeps an RMD from moving a donor into a higher tax bracket. Whether to a traditional charity or to a trust or gift annuity, the distribution also counts toward the $100,000 that can be gifted annually. The act provides a second option to take advantage of the exclusion beginning in 2023 for taxpayers who've reached age 70½ and are required to take minimum distributions.

7. Income payments must begin within one year after the distribution to qualify as a QCD. The SECURE Act 2.0 says a distribution doesn't qualify for the Legacy IRA if any person other than the IRA beneficiary and his or her spouse has an income interest.

D. Example. If a taxpayer uses $35,000 of their QCD to distribute to a charitable gift annuity in one tax year they can not in a following year make a second distribution of $15,000, since the $50,000 amount is for a one-time annuity transfer.