Woodland Tax Service
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We fix tax problems. Let us help you with yours!

Individual Retirement Accounts
Qualified Charitable Distribution (QCD)

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In general, distributions from a traditional IRA are taxable in the year received. However, a qualified charitable distribution (QCD) is generally a nontaxable distribution made directly by the trustee of your traditional IRA (other than a SEP or SIMPLE IRA) to an eligible charitable organization. If all of the qualifications are met, a QCD is nontaxable and you cannot claim a charitable contribution deduction for it. Taking a QCD can help lower taxable income.

Qualifications and Rules

Certain qualifications must be met:

- You must be at least age 70½ when the distribution is made.
- The maximum annual exclusion for QCDs is $100,000 per taxpayer. Any QCD in excess of the $100,000 exclusion limit is included in income as any other distribution. If you file a joint return, your spouse can also have a QCD and exclude up to $100,000.
- The amount of the QCD is reduced by the aggregate IRA contribution deductions made by you after you turned 70½.
- A QCD may be used to satisfy all or part of your required minimum distribution (RMD) but is not limited to the RMD amount.
- You must have the same type of acknowledgment of your contribution that you would need to claim a deduction for a charitable contribution.
- A charitable contribution deduction on Schedule A (Form 1040), *Itemized Deductions,* cannot be claimed for any QCD excluded from income.
- The QCD amount is limited to the amount of the IRA distribution that would otherwise be included in income. If your IRA includes nondeductible contributions, the distribution is first considered to be paid out of otherwise taxable income.
- The QCD cannot be distributed to you first and then donated, it must be transferred directly to the charity. Any check issued must be made payable to the charity. If you have check-writing privileges for an IRA, you may be able to write out a check to the charity. Check with your IRA trustee for the proper QCD procedure.

Example: *On December 23, 2022, Jeff, age 75, directed the trustee of his IRA to make a distribution of $70,000 directly to a qualified charitable organization. The total value of Jeff's IRA is $100,000 and consists of $60,000 of deductible contributions and earnings and $40,000 of nondeductible contributions (basis).*

Since Jeff is at least age 70½ and the distribution is made directly by the trustee to a qualified organization, the part of the distribution that would otherwise be includible in Jeff's income is a QCD.

In this case, Jeff has made a QCD of $60,000 (his deductible contributions and earnings).

Jeff includes the total distribution ($70,000) on line 4a of Form 1040. Jeff enters -0- on line 4b. This is Jeff's only IRA and he took no other distributions in 2022.

He also enters "QCD" next to line 4b to indicate a qualified charitable distribution. After the distribution, his basis in his IRA is $30,000.

In 2022, Jeff itemizes his deductions and files Schedule A (Form 1040), deducting the $10,000 portion of the distribution attributable to the nondeductible contributions as a charitable contribution. He cannot take the charitable contribution deduction for the $60,000 portion of the distribution that was not included in his income.

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Example: *Janet is single, age 73, and wants to contribute $5,000 to a qualified charity using funds from her IRA. There are two options available to her:*

- *Make the donation through a QCD, or*
- *Withdraw-then-donate the funds directly to the charity.*

With either option, the $5,000 would count toward meeting her RMD.

Qualified charitable distribution. Janet could make the $5,000 contribution through a QCD by instructing the IRA custodian to send the charity $5,000 directly from her IRA. The QCD does not increase her AGI (or count as income when determining the taxability of her Social Security benefits), and she is not able to claim a charitable contribution deduction for it.

Withdraw-then-donate. Alternatively, she can withdraw $5,000 from her IRA, deposit the funds into her bank account, and then directly make the contribution to the charity. The $5,000 distribution increases her adjusted gross income and, if she itemizes, increases her total itemized deductions by the $5,000 charitable contribution.

Suppose Janet has $10,000 in other itemized deductions. If not for the $5,000 charitable contribution, Jane would use the standard deduction of $14,700 (2022) for a single taxpayer over age 65. With this contribution, she itemizes and deducts $15,000 ($10,000 + $5,000), $300 more than the $14,700 standard deduction amount. In this case, she only benefits from $300 of the $5,000 contribution. All else being equal, Janet's taxable income would be $4,700 higher with the withdraw-then-donate option than with utilizing a QCD. Janet would need to have $14,700 in other deductions, an amount equivalent to her standard deduction, to make this option match the tax effectiveness of a QCD.

Increase in AGI. Under the withdraw-then-donate option, a taxpayer's AGI will be higher than with the QCD option. A higher AGI could increase taxable income, total tax, and affect various limitations.

- **Social Security.** A higher AGI increases provisional income by the same amount. Provisional income is used to calculate the taxable portion of Social Security benefits. For most Single taxpayers, provisional income between $25,000 and $34,000 causes up to 50% of Social Security benefits to be taxed. Above $34,000 causes up to 85% of Social Security benefits to be taxed, which is the maximum amount that can be taxed. The threshold levels for Married Filing Jointly are $32,000 and $44,000, but the same principle applies.
- **Capital gains.** An increase in taxable income could push a taxpayer into a higher maximum capital gains tax rate. For 2022, capital gains are taxed at 0% for Single taxpayers with taxable income less than $41,675.
- **Medicare Parts B and D premiums.** The amount of Medicare Part B and Part D premiums are tied to the taxpayer's previous two years' modified AGI. MAGI for 2022 will affect the amount of 2024 premiums.
- **Medical and dental expense deduction limitation.** Medical and dental itemized deductions are limited to the amount that exceeds 7.5% of AGI. The QCD option could produce a lower total tax bill by setting a lower threshold for deducting medical expenses.
- **Charitable gift deduction limitation.** Gifts donated through a QCD are not reported as itemized deductions or subject to limitation. Generally, the maximum deduction for cash gifts on Schedule A (Form 1040) is limited to 60% of AGI. Unused portions can be carried forward up to five years.
- **Tax credits limitation.** Many tax credits are limited or disallowed for taxpayers with a higher AGI.
- **State income tax.** Many states' income taxes are based on federal AGI. Therefore, a QCD could produce a lower state tax bill.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 72.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.