Navigating Qualified Charitable Distributions

…in 5 Easy Steps

What is a qualified charitable distribution? A QCD is a distribution from an IRA that goes directly to a qualifying charity and is not included in the taxable income of the IRA owner. A QCD cannot be made from an employer plan. A QCD can be up to $100,000 a year, per individual.

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Sean is a member of Ed Slott's Elite IRA Advisor Group℠, an exclusive organization of financial advisors who are dedicated to being leaders in the IRA industry. As an Ed Slott Elite IRA Advisor, Sean proves to be an advisor with the specialized knowledge to navigate an increasingly more complicated tax environment.

1. **Either an IRA owner or a beneficiary can do a QCD.** The individual *must* be at least age 70½ at the time of the transaction. Reaching age 70½ later in the year is not enough. Both spouses can do a QCD when each spouse does the QCD from their own IRA.

2. **A QCD can be made from an IRA, an inactive SEP or SIMPLE IRA, or a Roth IRA.** Only pre-tax amounts can be used for a QCD, which makes the use of Roth funds very unlikely. The QCD must be a direct transfer to a qualifying charity. A check payable to the charity but sent to the IRA owner will qualify as a QCD, as will a check written from a "checkbook IRA" to a qualifying charity. If an IRA owner receives a check payable to him from his IRA and then later gives those funds to charity, that is not considered a QCD.

3. **A charity must be a qualifying charity.** It cannot be a donor-advised fund or a private foundation. A gift to a charitable gift annuity will also not qualify. A QCD to a charity where the IRA owner has an outstanding pledge will qualify and will not create a prohibited transaction. The QCD must satisfy all charitable deduction rules. If a distribution to a charity is more than $100,000, the amount over $100,000 is taxable to the IRA owner and is deductible on the owner's income tax return. The excess amount cannot be carried over to a future tax year.

4. **A QCD can satisfy a required minimum distribution (RMD) but can be made before age 72.** It is not limited to the amount of the RMD but is capped at $100,000 a year. If an RMD is more than $100,000, any amounts in excess of the QCD are taxable to the IRA owner. QCDs can now be made before the first RMD year (age 72).

5. **The IRA custodian has no special tax reporting for a QCD.** The QCD will be reported on Form 1099-R as a regular distribution. The IRA owner will need to report the QCD on his tax return. The amount of the QCD is excluded from the owner's taxable income. The

IRA owner also cannot take a charitable deduction for the QCD amount.

Questions on IRAs? Schedule a phone call with Sean here: www.connectwithsean.com