

Qualified Charitable Distributions (QCD's)

The Qualified Charitable Distribution (QCD) provision was enacted in law as part of the Pension Protection Act of 2006. The original legislation was to become effective August 17, 2006 and end December 31, 2007. However, each legislative year after December 2007, the QCD provision was usually added as a last-minute addition to the latest tax law change, or even added as an extension. However, on December 25, 2018, the new PATH (Protect Americans from Tax Hikes) ACT finally made QCD's permanent.

A QCD is a way for owners of IRA's to move monies out of their IRA's to a "qualifying charity" – tax free! The IRA can be a regular IRA, rollover IRA, or inherited IRA. (Monies can also be moved from a Roth IRA, but there is no tax advantage for the taxpayer). SEP and Simple IRA's have other restrictions.

This is a great tool for those "charity-inclined" individuals who donate each year to their colleges, churches, declared disasters, and other charities.

In the past these individuals would usually pay using a payment method by credit card, check or donation envelopes. This QCD Strategy can keep both

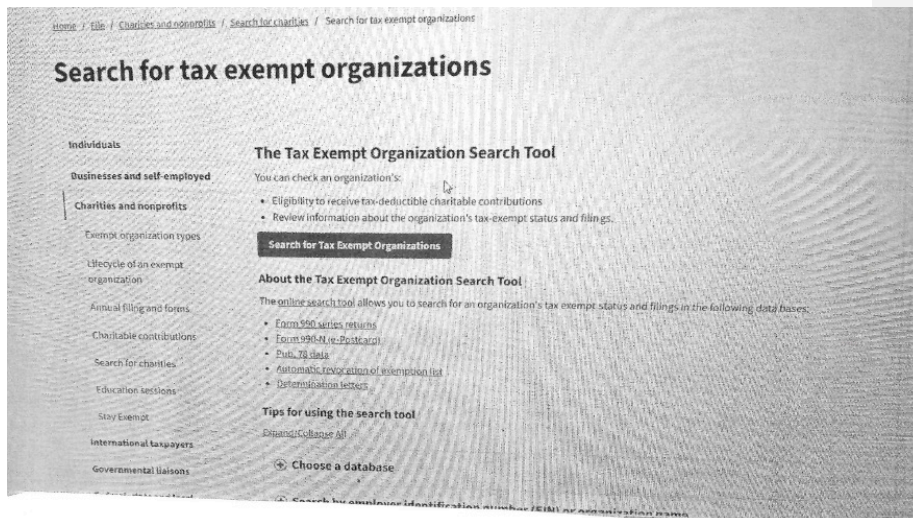
the givers and receivers on course with charitable donations. Also, in addition to reducing income taxes, it can also decrease the amount of Social Security that is subject to tax and in some cases potentially lower your medicare premiums.

Medicare Part B Premiums (2025)			
Annual Income ¹			Monthly Premium
Single, HOH, QSS	MFJ	MFS	
≤ \$103,000	≤ \$206,000	≤ \$103,000	\$174.70
\$ 103,001–129,000	\$206,001–258,000	N/A	244.60
\$129,001–161,000	\$258,001–322,000	N/A	349.40
\$161,001–193,000	\$322,001–386,000	N/A	454.20
\$193,001–499,999	\$386,001–749,999	\$ 103,001–396,999	559.00
\$500,000 or more	\$750,000 or more	\$397,000 or more	594.00
¹ 2023 AGI plus tax-exempt interest and exclusions for U.S. savings bond interest and foreign earned income and housing. Note: 2025 amounts not available at time of publication. Amounts shown are for 2024.			

QUALIFICATIONS –

1. The taxpayer must work with the IRA custodian to accomplish the transfer. The taxpayer cannot do the transaction himself'
- 2.. Donations must be made to a qualified 501© {3} organization. The taxpayer can donate to multiple qualifying organizations. Fund sponsored or private foundations or supporting organizations are NOT

eligible. Before arranging any transfer of funds, be sure the charity is eligible. (Note that clients can go to www.irs.gov and key in “Tax Exempt Organizations” in the search tool. The taxpayer will be able to see all the 501©(3) organizations.



3. The taxpayer must be age 70 ½ to take advantage of the QCD deduction. The maximum amount the taxpayer can contribute in 2025 is \$108,000 per year. This was raised from the previous \$105,000 amount. This is per taxpayer. So if a taxpayer and spouse are filing a joint return, and both have eligible IRA's, the amount is \$108,000 each. (The total

amount of the IRA distribution would show on line 4a of the tax return.

Line 4b would only show any taxable distributions. The initials "QCD" would be placed on the line to signify why not all of the distribution is taxable).

EXAMPLE – CASH NEEDED HOME REPAIR

John - Age – 71

INCOME –

Interest Income - \$2500

Dividend - \$3000

Donation to Church - \$8000

Company Retirement - \$58000

Social Security - \$23000 total - \$19550 Taxable

Checking Balance - \$85000

Less: Contribution - - 8000

Less: Amt Paid for Taxes - 6878

Bal \$ 70122

Total Adjusted Gross Income - \$83050

Less: Senior Deduction -6000

\$77050

Less: Standard Deduction

\$15750 + \$2000 Age -17750

Taxable \$59300

Tax to be Paid \$ 6878

If John were to do a QCD, it would not change the amount of tax owed, since his monies withdrawn on the QCD would not be taxable, and his checking balance would remain \$85000, less the tax payment of \$6878 or \$78,122, instead of \$70,122.

4. Funds must be payable directly from the IRA to the charity. If the check is made out to the taxpayer, and not the charity, then it does not qualify for the QCD deduction. (Some fund families will send the check, which is written to the charity, to the taxpayer. If this occurs, simply forward the check on to the charity).

Example: John receives a \$12000 RMD payment directly into his checking account. He immediately makes a “one-time distribution” to his church’s Faith Direct program for the exact same amount.

5. The client should inform the tax preparer that he has completed a QCD. He should provide documentation from the custodian to confirm this transaction.

In the past, because of the QCD provision being an “add on” to the tax laws each time, the IRS and Congress decided to not change the Form 1099R to show the QCD amounts. The taxpayer would have to tell the

tax preparer that a QCD was completed. (A lot of times the taxpayer did not tell the preparer, or did not provide the documentation).

Beginning with the year 2025 the new Form 1099R will have a code “Y” designated on it, which will indicate that it is part of a QCD. (See form below). The taxpayer still needs to provide the documentation to the preparer for this QCD to be taken on the tax return. The taxpayer may have donated to multiple organizations with different amounts).

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Gross distribution \$		OMB No. 1545-0119 2025 Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
		2a Taxable amount \$		2b Taxable amount not determined ☐		Total distribution ☐	
PAYER'S TIN	RECIPIENT'S TIN	3 Capital gain (included in box 2a) \$		4 Federal income tax withheld \$		Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return. This information is being furnished to the IRS.	
RECIPIENT'S name		5 Employee contributions/ Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$			
Street address (including apt. no.)		7 Distribution code(s)		8 Other ☐			
City or town, state or province, country, and ZIP or foreign postal code		9a Your percentage of total distribution %		9b Total employee contributions %			
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 FATCA filing requirement ☐	14 State tax withheld \$		15 State/Payer's state no.		16 State distribution \$
Account number (see instructions)		13 Date of payment	17 Local tax withheld \$		18 Name of locality		19 Local distribution \$

Form 1099-R www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

Instructions for Recipient (continued)

E—Distributions under Employee Plans Compliance Resolution System (EPCRS).

F—Charitable gift annuity.

G—Direct rollover of a distribution to a qualified plan, a section 403(b) plan, a governmental section 457(b) plan, or an IRA.

H—Direct rollover of a designated Roth account distribution to a Roth IRA or Roth SIMPLE IRA.

J—Early distribution from a Roth IRA or Roth SIMPLE IRA, no known exception (in most cases, under age 59½).

K—Distribution of traditional IRA assets not having a readily available FMV.

L—Loans treated as distributions.

M—Qualified plan loan offset.

N—Recharacterized IRA contribution made for 2025 and recharacterized in 2025.

P—Excess contributions plus earnings/excess deferrals (and/or earnings) taxable in 2024 or a previous year.

Q—Qualified distribution from a Roth IRA or Roth SIMPLE IRA.

R—Recharacterized IRA contribution made for 2024 or a previous year and recharacterized in 2025.

S—Early distribution from a SIMPLE IRA in first 2 years, no known exception (under age 59½).

T—Roth IRA or Roth SIMPLE IRA distribution, exception applies.

U—Dividend distribution from ESOP under section 404(k).

Note: This distribution isn't eligible for rollover.

W—Charges or payments for purchasing qualified long-term care insurance contracts under combined arrangements.

Y—Qualified charitable distribution (QCD) claimed by taxpayer under section 408(d)(8).

If the **IRAPSEP-SIMPLE** box is checked, you've received a traditional IRA, SEP, or SIMPLE distribution.

Box 8. If you received an annuity contract as part of a distribution, the value of the contract is shown. It isn't taxable when you receive it and shouldn't be included in boxes 1 and 2a. When you receive periodic payments from the annuity contract, they're taxable at that time. If the

distribution is made to more than one person, the percentage of the annuity contract distributed to you is also shown. You'll need this information if you use the 10-year tax option (Form 4972). If you previously received an annuity contract as part of a distribution (or the contract was purchased through a direct rollover from a plan account) and periodic payments from that annuity contract are included in box 1, the value of the contract as of the end of the year is shown. This information may be provided to your plan administrator to determine any required distribution from that plan. If charges were made for qualified long-term care insurance contracts under combined arrangements, the amount of the reduction in the investment (but not below zero) in the annuity or life insurance contract is reported here. **Box 9a.** If a total distribution was made to more than one person, the percentage you received is shown.

Box 9b. For a life annuity from a qualified plan or from a section 403(b) plan (with after-tax contributions), an amount may be shown for the employee's total investment in the contract. It is used to compute the taxable part of the distribution. See Pub. 575.

Box 10. If an amount is reported in this box, see the Instructions for Form 5329 and Pub. 575.

Box 11. The first year you made a contribution to the designated Roth account reported on this form is shown in this box.

Box 12. If checked, the payer is reporting on this Form 1099 to satisfy its Internal Revenue Code chapter 4 account reporting requirement under FATCA. You may also have a filing requirement. See the Instructions for Form 8938.

Box 13. Shows the date of payment for reportable death benefits under section 6050Y.

Boxes 14–19. If state or local income tax was withheld from the distribution, boxes 16 and 19 may show the part of the distribution subject to state and/or local tax.

Additional information. You may want to see: Form W-4P, Form 4972, Form 5329, Form 8606, Pub. 525, Pub. 560, Pub. 571, Pub. 575, Pub. 590-A, Pub. 590-B, Pub. 721, Pub. 939, and Pub. 969.

6. A required minimum distribution from an IRA (RMD) can be used as a QCD, provided the taxpayer is 73 or older. (The first RMD must be taken by April 1 of the year following the calendar year in which an individual turns 73. The individual must meet the same deadline as a normal distribution, on December 31.

EXAMPLE

Phil and Mary donate to their Church and various non-profit organizations year after year. Phil is 74 years old, and Mary is 73 years old.

In 2025 they are required to take RMD's totaling \$15000 - \$8000 from Phil's IRA and \$7000 from Mary's IRA.

Normally they write checks year after year or use envelopes for their donations to the organizations. Their Fund Manager finally convinces them to both do a QCD.

Income from Pensions - Phil/\$25000 Mary - \$27000

Interest - \$3200

Dividends - \$6000

Social Security – Phil - \$22000

Mary - \$29000

IRA'- RMD's Phil - \$8000/Mary - \$7000

Deductions – Home is paid off, so not enough deductions to itemize

	Without QCD	With QCD
Calculation:		
Pension:	\$52000	\$52000
Interest	3200	3200
Dividends	6000	6000
IRA Distribution	15000	0
Soc, Sec. Taxable	43350	42295
TOTAL	\$ 119550	\$ 103495
Less:		
Sr. Ded	-12000	-12000
Stand Ded	-34700	-34700
TAXABLE INC.	\$72850	\$ 56795
OWED TO IRS	\$ 8265	\$ 6338 = Savings
		\$1927

7. A taxpayer can make a QCD that exceeds the RMD for a given year. However, the extra CANNOT be carried over to meet the RMD's for future years.

David wants to give a QCD of \$12000 to his church, in 2025. He instructs his Fund Manager to do so. His required RMD for 2025 is \$8000. Because he is taking out more than His RMD for the year, he CANNOT carry the extra balance Into 2026. He would still have to take out his full required RMD in 2026.

8. Donors can't receive any benefit for making the QCD to a charity. A person can't receive tickets for a charity event, or purchase something from the charity auction.

9. The taxpayer can use less than the required minimum distribution for a QCD. However he still would have to draw out the RMD and pay taxes on the remainder that is not used for the QCD.

EXAMPLE:

John's RMD for 2025 is \$8000. He is doing a QCD to his church for \$6000. He, therefore, would report the total \$8000 on Line 4a on the tax return. The additional \$2000 would be a taxable distribution and reported on Line 4B.

10. The first dollar out of an IRA is considered to be an RMD. So, if a taxpayer takes out money early in the year, and then wants to do a QCD, that money taken earlier, is an RMD.

EXAMPLE:

Steven, Age 76, takes his full RMD in February and deposits the money into his bank account. In October he wants to do a QCD. Steven cannot retroactively deem the February distribution to be a QCD. He must take an additional distribution to do a QCD for that calendar year. That income CAN be excluded, but it won't offset the income from the RMD earlier in the year.

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11. Coordinating QCD's with IRA Contributions – Under the SECURE Act of 2019, the IRS repealed the maximum age for an IRA contribution. As a result individuals with compensation are permitted to contribute to their IRA, even after age 70 ½. But, IRA account owners must reduce their intended QCD's by any contribution amounts made into the IRA after age 70 ½. IRA contributions made after 70 ½ cannot be turned around and used as QCD's. This feature was an "anti-abuse" provision of the SECURE Act. Instead of

being treated as QCD's any amounts disallowed will be treated as a taxable distribution and subsequent "regular" charitable distribution that can be used on Schedule A as an itemized deduction.

EXAMPLE:

Ron is a single IRA owner who is still working and turned 70 ½ in January 2022. Thanks to the SECURE Act's changes to the RMD rules, he does not need to start taking any RMDs from his IRA until 2024, when he will turn 73. In both 2022 and 2023, Ron made deductible contributions of \$7,000 to his traditional IRA. Therefore, he has \$14,000 in post-age 70 ½ deductible contributions.

In 2024, Ron calculates the RMD for the IRA to be \$12,000. Being charitably inclined, Ron follows all the rules for a QCD and transfers \$12,000 directly from his IRA to his church, thereby satisfying the RMD requirements for the year.

HOWEVER, despite adhering to all the standard QCD rules, the full \$12,000 will not be considered as a QCD. Since the \$12,000 intended to be treated as a QCD is less than Ron's \$14,000 post 70 ½ deductible IRA contributions, the anti-abuse rules require that the entire \$12,000 be classified as a regular taxable IRA distribution. Ron must include the distribution in his taxable income, and it may be eligible for a charitable deduction.

At the end of 2024, Ron has \$2,000 remaining of post-70 1/2 deductible traditional IRA contributions. For 2025 Ron is now retired and has a distribution of \$13,000. \$2,000 of that distribution will be taxable, and the remainder he can treat as a QCD.

RECENT TAX COURT CASES REGARDING QCD's

Case One – The IRS filed a motion for a partial summary judgment alleging that the taxpayer did donate to a charitable organization. However, he did not have proper documentation, including written acknowledgement from the charity, which is required for donations of \$250. The court agreed with the IRS.

Case Two – The IRS filed a motion disallowing the QCD deduction because of a questionable written acknowledgement by the Charity. And, the acknowledgement did not have the statement that “No goods or services were provided to the taxpayer for his donation.” The court, again, agreed with the IRS.

REFERENCES

www.IRAhelp.com/focus - January 2016/IRA Focus

Kiplinger Newsletter - 10 Things Anyone Considering a QCD Should Know

Building Wealth – July 2025

Qualified Charitable Distributions – Article by Jaye Tritz, EA

NATP Tax Pro – July 2025

Retirement Daily July 25, 2024 - 12 Essential Rules for Qualified Distributions

1040 Quickfinder Handbook – Social Security Calculation Worksheet

Section 3

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Quiz Answers:

1.F, 2.F, 3.T, 4.F, 5.T, 6.F, 7.F, 8.F, 9.F, 10.T

