

Qualified Charitable Contributions

Interested in gifting and potentially reducing taxes? If you are over 70.5 years old and have an Individual Retirement Account (IRA), you may want to consider gifting to the FSC foundation via a “Qualified Charitable Distribution”, also known as “QCD”.

A QCD is a direct transfer of funds from your IRA custodian, payable to a qualified charity. QCDs can be counted toward satisfying your required minimum distributions (RMDs) for the year, as long as certain rules are met. Note that as of May 2022, the RMD age is 72 years old.

- You must be 70½ or older to be eligible to make a QCD.
- The QCD reduces your adjusted gross income. This occurs regardless of whether you elect the standard deduction or itemize deductions. Many retirees no longer itemize, and this strategy can be quite beneficial.
- A reduction in your adjusted gross income could lower your Medicare premiums and/or might reduce taxes on Social Security benefits.
- QCDs are limited to the amount that would otherwise be taxed as ordinary income. This excludes non-deductible contributions.
- You may only make a QCD from an IRA. If your retirement funds are currently in a 401(k) or 403(b), you must first roll the funds into an IRA.
 - Funds distributed directly to you, the IRA owner, and which you then give to charity do not qualify as a QCD.
 - For a QCD to count towards your current year's RMD, the funds must come out of your IRA by your RMD deadline, generally December 31.
 - You may elect to distribute all or a portion of your RMD to a charity. You may also distribute more than your RMD amount, up to a maximum of \$100,000 per year.
 - Any amount donated above your RMD does not count toward satisfying a future year's RMD.
- When making a QCD, you must receive the same type of acknowledgment of the donation that you would need to claim a deduction for a charitable contribution.
 - When making a QCD, 100% of your donation needs to go to the charity (for example, you cannot receive any non-tax-deductible gifts (such as t-shirt, membership, etc.).
- The maximum annual amount that can qualify for a QCD is \$100,000. This applies to the sum of QCDs made to one or more charities in a calendar year. (If, however, you file taxes jointly, your spouse can also make a QCD from his or her own IRA within the same tax year for up to \$100,000.)
- Contributing to an IRA may result in a reduction of the QCD amount you can deduct. (The aggregate amount of deductible IRA contributions you make to your IRA after you turn 70 1/2 will reduce the amount of the QCD that is not includible in your gross income.)

Contact your IRA provider or tax advisor to see if you can make a qualified charitable distribution.

What kind of charities qualify?

The charity must be a 501(c)(3) organization, eligible to receive tax-deductible contributions.

Some charities do not qualify for QCDs:

- Private foundations
- Supporting organizations: i.e., charities carrying out exempt purposes by supporting other exempt organizations, usually other public charities
- Donor-advised funds, which public charities manage on behalf of organizations, families, or individuals

Tax reporting

- A QCD is reported as a normal distribution on IRS Form 1099-R for any non-Inherited IRAs. For Inherited IRAs or Inherited Roth IRAs, the QCD will be reported as a death distribution. Itemization is not required to make a QCD. While the QCD amount is not taxed, you may not then claim the distribution as a charitable tax deduction.
- A QCD is not subject to withholding. State tax rules may vary, so for guidance, consult a tax advisor.
- When making a QCD, you must receive the same type of acknowledgement of the donation that you would need to claim a deduction for a charitable contribution.
- A tax advisor can help you determine if both your IRA and charity qualify for QCDs.

DISCLOSURE:

This information is designed to provide general information on the subjects covered, it is not, however, intended to provide specific legal or tax advice and cannot be used to avoid tax penalties or to promote, market, or recommend any tax plan or arrangement. Please note that Midwest Capital Advisors, LLC (MCA) and its affiliates do not give legal or tax advice. You are strongly encouraged to consult your tax advisor or attorney. All information in this article is subject to change based on current laws (Article Last updated May, 2022).

Infographic of gifting via typical distribution from an IRA vs gifting via a QCD.

