

# Qualified Charitable Distributions From IRAs

## Retirement Plans

Certain IRA holders have the opportunity to make tax-free distributions from their IRAs to qualified charitable organizations. For tax-free eligibility, the Qualified Charitable Distribution (QCD) must be sent directly from the IRA payable to the receiving qualified 501(c)(3) non-profit organization. The distribution may be processed by the IRA custodian or by the IRA owner via checkwriting.

### Eligibility and Donation Limit

Although the SECURE Act raised the required minimum distribution age to 72, IRA holders can continue to make QCDs at age 70 ½.\* In addition, beneficiaries of inherited IRAs who meet the age requirement can also take advantage of QCDs. For those who qualify, the maximum IRA charitable distribution is limited to \$100,000 per individual per tax year. Any distribution in excess of this limit will not qualify for the tax exclusion benefit and will be treated as ordinary income. The provision applies for traditional, Roth, and inherited IRAs, but does not typically apply to distributions from “active” SEP IRAs, SIMPLE IRAs, or any Qualified Plan.

### Benefits of a QCD

If a taxpayer makes the donation as prescribed by the IRS, then the distribution will be excluded from gross income and counts toward:

- The taxpayer’s \$100,000 exclusion limitation for the year the distribution occurs, and
- The taxpayer’s required minimum distribution (RMD) for the current year

With the increase in the standard deduction for 2021 to \$27,400 for married filing jointly age 65 or older and \$14,050 for single filers age 65 or older, more Americans will be using the standard deduction rather than itemizing deductions on their tax returns. QCDs are excluded from taxable income, but do not allow for an itemized deduction. If individuals age 70 ½ or older use the standard deduction, the QCD is a great way to keep taxable income lower when satisfying an RMD and still get the full benefit of the standard deduction. By using the standard deduction, a taxpayer will receive no benefit for their charitable contribution unless it is processed as a QCD from an IRA. In addition, by not including a charitable donation from an IRA as ordinary income, an individual’s adjusted gross income is not increased, which could affect the ability to:

- Qualify for Roth IRA contributions
- Avoid other potential tax ramifications, such as:
  1. The 3.8% Net Investment Income Tax (NIIT). (Even though distributions from IRAs are exempt from the 3.8% NIIT, taxable distributions from IRAs could push income over the threshold amount, causing other investment income to be subject to the surtax.)
  2. Paying more for Medicare Premiums.
  3. Taxation on Social Security Benefits.

### QCD Tax Reporting

Typically, the custodian of an IRA will report a QCD as a normal distribution on the 1099R tax form, while QCDs from inherited IRAs are reported as death distributions. This gives the IRS no notification that an IRA holder intended to make a tax-free distribution from the IRA to a charity. It is the responsibility of the IRA holder or his or her tax preparer to properly report the QCD on a 1040 tax return. It is also strongly suggested that the IRA holder obtains a receipt from the charitable organization.

### Is a QCD the right strategy for you?

Please seek the aid of a qualified tax preparer for guidance.

\* Deductible contributions to your traditional IRA after age 70 ½ may reduce your ability to make QCDs in the future.

*Stifel does not provide tax advice. You should consult with your professional tax advisor regarding your particular situation.*

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