

# What Is a Qualified Charitable Distribution?

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If you're looking for an optimal way to support charitable causes close to your heart while enjoying tax benefits, a Qualified Charitable Distribution (QCD) could be the strategy for you. Designed for individuals 70 ½ or older, a QCD allows you to donate funds directly from your Individual Retirement Account (IRA) to a qualified charity. Qualified distributions to eligible charities are not taxed and will lower your overall taxable income.

## Understanding QCDs

While a qualified distribution is a great way to donate to your favorite cause, you must pick a charity that has obtained its 501(c)(3) status from the IRS. Always take the time to verify the eligibility of the charity you wish to support.

Once you have identified a qualified charity, the next step is to make a direct transfer. The funds must be transferred directly from your IRA to the chosen qualified charity. Avoid withdrawing the money yourself and then donating it separately, as this would not qualify as a QCD and will result in income taxes.

### Maximum Donation Limit

Individual taxpayers can make qualified charitable donations of up to \$100,000 per year. If you're married and have separate IRAs, you can each donate up to \$100,000, doubling

your impact.

**Note:** If you are currently receiving contributions from your employer into your IRA, you will be disqualified from making a QCD until the contributions cease.

## **Tax Benefit**

One of the primary advantages of QCDs is the tax benefit. In most cases, it's advisable to make a QCD using a tax-deferred IRA, such as a Traditional IRA. Tax-deferred IRAs allow you to postpone paying taxes on the funds until you withdraw from the account. By making a QCD with these types of IRAs, you can avoid taxes entirely on the distributed amount.

Although it is possible to make qualified distributions via various types of IRAs (Traditional, Roth, Inherited, inactive SEP, and inactive SIMPLE IRAs), making a QCD from a Roth IRA wouldn't be ideal since distributions from Roth IRAs are already tax-free. Avoid doing QCDs from Roth IRAs to ensure that you maximize the tax benefit of this strategy.

## **Other Benefits**

If you're 73 or older and subject to Required Minimum Distributions (RMDs), a QCD can be particularly valuable. A QCD allows you to fulfill your RMD obligation by directly donating the required amount to a qualified charity. This means that instead of taking the RMD as taxable income, you can divert it to a charitable cause which will lower your overall tax burden.

## **The Bottom Line**

Whether you want to make a positive impact in the world or simply fulfill your required distribution obligation, a QCD can be a great option to consider. To ensure that your QCD goes smoothly, always verify the charity's eligibility and make sure to transfer the funds directly from your IRA. Understanding this process can help you support a cause you're passionate about while minimizing your tax burden.