Reducing Your Tax Burden with a Qualified Charitable Contribution

If you are trying to reduce your tax burden in retirement, one way to do that is to make a charitable contribution from funds in a traditional or Roth individual retirement account.

There are multiple benefits to you for making a qualified charitable distribution. The QCD is removed from your IRA without you claiming it as income, meaning you are not taxed on those funds before giving them to charity.

Making a QCD also provides a chance to give to a favorite charity a donation that you might otherwise not have been able to make, or receive potential tax benefits for charitable contributions you are already making.

If you are 72 or older, your QCD can satisfy some or all of your required minimum distribution. But even if you are not required to take an RMD, you can still make a QCD gift.

Under the law, you can donate up to $100,000 in QCDs per year directly from an IRA to qualifying charities. If you and your spouse have separate IRAs, you may each contribute the maximum of $100,000 per year.

Before you consider QCD, though, you should discuss it with your tax advisor and estate-planning attorney as they are not for everybody.

A qualified charitable distribution may be made:

- When the IRA holder is age 701⁄2 or older.
- Directly from the IRA to a qualified charity.
- From a traditional or Roth IRA.

Generally, a qualified charity includes most public charities that are eligible to receive tax-deductible contributions — including religious institutions, certain veterans' organizations, fraternal societies and community foundations that provide scholarships.

Distribution rules

- You can make no more than $100,000 per person per year in QCDs.
- Distributions must be transferred to the charity no later than Dec. 31 of the current tax year.
- The transaction must be a direct IRA distribution from the IRA custodian or trustee to a qualified charity.

Who are QCDs suited for?

A QCD may be a suitable strategy for donors who:

- Are required to take a minimum distribution from an IRA, but don't need the funds and would face increased tax liabilities if they took the distribution as income.
- Would like to reduce the balance in an IRA to lower future required minimum distributions.
- Would like to make a larger charitable gift than they could if they simply donated cash or other assets. The value of charitable gifts that can be deducted from a tax return usually ranges from 20% to 60% of the donor's adjusted gross income. This AGI-based limit does not apply to QCDs, allowing donors to make larger gifts.
- Have identified which charities they want to support immediately with a substantial gift.

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