

Qualified charitable distributions for IRAs: Learn ways to reduce your taxes while maximizing charitable contributions

For IRA owners who are over age 70½ and charitably inclined, a qualified charitable distribution (QCD) may provide a tax-efficient way to make gifts to your favorite charity. Generally, anyone who has reached age 73 must begin taking taxable annual required minimum distributions (RMDs) from their IRAs. QCDs allow for an individual to make a tax-free gift from an IRA directly to a charity(ies). The gifted amount can satisfy all or a portion of the donor's RMD, thereby reducing the related taxes.

QCD rules

- Eligible retirement accounts include Traditional IRAs, Inherited IRAs, Simple IRAs (inactive only) and SEP IRAs (inactive only).
- Account owner must be age 70½ or older at the time of the transfer.¹
- The maximum amount of a QCD is \$100,000 annually per taxpayer, as indexed for inflation.
- SECURE 2.0 established a one-time transfer of up to \$50,000, as indexed for inflation from an IRA to a split-interest vehicle such as a charitable remainder trust (CRT) or a charitable gift annuity (CGA).
- Non-deductible contributions to IRAs are not eligible to be included in a QCD.
- Qualified charities include public charities and do not include donor-advised funds, supporting organizations, trusts or in most instances, private foundations.
- While a QCD does not qualify for a charitable income tax deduction, with a reduction in adjusted gross income, it can be the equivalent of a tax deduction or even better.
- To allocate some or all of an RMD as a QCD, the QCD must be made by the deadline for receiving the RMD, generally December 31 of the applicable tax year.
- Any QCD amount given in excess of RMD amount does not count towards the RMD for a future year. The RMD amount allocated to a QCD must be for the calendar year in which the QCD will be made. RMD amounts from a prior tax years or future tax years cannot be allocated to QCDs for the current tax year.
- The amount of the QCD must be reduced by the amount of any deductible contributions made to the IRA after the taxpayer attained age 70½ to the extent not already used to reduce a QCD.

Top candidates for a qualified charitable distribution

The qualified charitable distribution may be particularly appealing if:

- **Your RMD is excess income and you want to make a charitable gift.** Making a QCD allows you to satisfy your charitable goals with dollars that would otherwise increase your taxable income.
- **You take the standard deduction and make charitable gifts.** A majority of taxpayers take the standard deduction and do not deduct the value of their charitable gifts. Making a QCD is essentially equivalent to itemizing a fully deductible charitable gift. If the charitable gift would otherwise be your only available itemized deduction, a QCD may provide an opportunity for you to recognize a greater tax benefit than gifting from non-retirement assets.
- **Your state does not allow state income tax charitable deductions.** There are several states that either have no deduction for charitable gifts or have a limited deduction. The QCD allows you to make a charitable gift without increasing your gross income due to an RMD.

Note that if your state does allow such deductions and doesn't tax IRA distributions, the effect may be the opposite—your state income tax could be higher than if you used other assets to make the deductible gift.

- **You wish to keep your AGI lower.** The full amount of your annual RMD is included in your AGI. While you may separately give assets to charity, receiving your full RMD will increase your AGI which could, in turn, impact the deductibility of medical expenses, the taxability of Social Security benefits, subject you to the net investment income tax, and increase your Medicare premiums.
- **You have nondeductible contributions in your Traditional IRA and are considering a Roth conversion.** QCDs can help manage the tax impact of backdoor Roth conversions for those with IRAs to which both deductible (pretax) and nondeductible (after-tax) contributions were made. QCDs are deemed to come from the taxable portion of an IRA first (the portion attributable to pre-tax contributions), which would be subject to tax upon conversion. After removing (or minimizing) the taxable portion of your IRA through QCDs, you could be left with only nontaxable amounts (attributable to after-tax contributions) which could be converted to a Roth tax-free.

A QCD can only be made from a Roth IRA if the Roth IRA has not yet met the requirements to be a “qualified distribution” (e.g., not held for the mandatory five-year holding period). Because Roth IRAs will eventually qualify for tax-free treatment, they generally are not a good candidate for a QCD.

Don't have an eligible IRA?

If an individual only has assets in a retirement plan that is not eligible for a QCD, he/she may wish to prepare for next year by rolling assets from an ineligible plan to a Traditional IRA from which a QCD can be made the following year.²

Donating appreciated securities versus making a QCD

In many circumstances a QCD can be one of the most effective charitable giving tools for IRA owners who are subject to RMDs. However, in other situations, donating appreciated securities to charity could be a better tax strategy.

Donating appreciated securities may allow you more flexibility in regard to designating the recipient charity (for example, a QCD cannot be used to fund a donor-advised fund, whereas appreciated securities have no such restriction). However, you should be aware that donating low-basis stock may not fully offset the income tax associated with the receipt of an RMD in all cases.

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Conclusion

A QCD can be tax advantageous for an eligible taxpayer who wants to maximize charitable income tax contributions in a tax-efficient manner.

Your TIAA advisor is available to discuss QCDs, RMDs and other income strategies with you.



¹ SECURE 2.0 Act of 2022 increased RMD age to 73 for those who were not yet 72 on December 31, 2022. QCDs are permitted for taxpayers age 70½ or above.

² Before rolling over from a previous employer's plan, be sure to carefully consider the benefits of both the existing and new product or plan. There will likely be differences in features, costs, surrender charges, services and other important aspects. Speak with a TIAA consultant and your tax advisor regarding your situation. Learn more at [TIAA.org/knowyouroptions](https://www.tiaa.org/knowyouroptions).

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