

### **Making Qualified Charitable Distributions out of a Retirement Plan**

Dear Client,

I am writing this letter to let you know about an opportunity to make a qualified charitable distribution (QCD) from your IRA. Individuals must receive annual required minimum distributions (RMDs) out of their retirement plan or IRA when they reach age 73 or older (this age will be increased to 75 in future years). For some taxpayers, the RMDs will bump them into a higher tax bracket and cause the taxpayers to be taxed at a higher tax rate. However, individuals age 70 ½ or older are allowed to make tax-free QCDs of up to \$100,000 directly from their IRAs to a qualified public charity (generally, a public charity other than a donor advised fund). These amounts will not be taxed and will not be included in adjusted gross income (AGI).

If an IRA owner maintains multiple IRAs in a tax year, and QCDs are made from more than one of those IRAs, the maximum total amount that may be excluded for that year by the IRA owner is \$100,000. For married individuals filing a joint return, the limit is \$100,000. There is no carryover provision. Thus, if the aggregate amount of a taxpayer's QCDs exceeds \$100,000 (or the adjusted amount) in a tax year, the excess amount cannot be carried over to the following year, and must be included in the taxpayer's gross income for the tax year in which the excess distribution is made. A taxpayer is not permitted to claim a charitable deduction for amounts transferred from his IRA to charity if the amounts are excluded from the taxpayer's gross income under the IRA QCD rules.

An IRA owner who makes an IRA QCD in an amount equal to his or her RMD for a tax year is considered to have satisfied the minimum distribution requirement for that year, even though a charitable entity (and not the IRA owner) is the recipient of the distribution. For IRA owners who don't *need* to take distributions from their IRAs (e.g., because of a comfortable financial situation), but who are *required* to take distributions under the RMD rules, the QCD rules allow them to satisfy the RMD rules without having to incur a tax liability, at least up to \$100,000 distributed to charity.

**FOR EXAMPLE:**

**A and B, a married couple who are both age 74, have \$110,000 of adjusted gross income (AGI) this year. A must take \$40,000 in RMDs from his IRA this year. A and B do not itemize deductions. With regard to charitable donations, historically, A and B have written a yearly \$2,000 check to their choice of charity, and another yearly \$1,000 check to a children's hospital.**

**Instead of writing checks to these charities, A withdraws \$37,000 (instead of \$40,000) from A's IRA, and the couple then make their charitable donations via QCDs from A's IRA. As a result, A has complied with the requirement to make \$40,000 of RMDs, and the couple's taxable income is reduced by the amount of the QCDs (because the \$3,000 in QCDs are excluded from gross income), resulting in a reduction in the amount of federal income tax they would have paid had they written the usual checks to the charities.**

In early 2025, the IRA owner will receive Form 1099-R from their IRA trustee that shows any IRA distributions made during calendar year 2024, including both regular distributions and qualified charitable distributions.

QCDs are not deductible as charitable contributions on Schedule A. But, as with deductible contributions, the donor must get a written acknowledgement of their contribution from the charitable organization before filing their return. In general, the acknowledgement must state the date and amount of the contribution and indicate whether the donor received anything of value in return.

As always, please feel free to contact us if you have any questions.

Very truly yours,

Green, Polack & Company  
Accountancy Corporation  
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