

Qualified Charitable Distributions – What Are They and When Are They a Good Idea?



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By Matt Smith, CPA | msmith@deandorton.com and Elizabeth Leatherman, J.D., CPA | eleatherman@deandorton.com

Qualified Charitable Distributions

You can make a qualified charitable distribution (QCD) by directly transferring funds from your IRA custodian to a qualified charity. QCDs can be counted toward satisfying required minimum distributions (RMDs) for taxpayers over age 70 1/2.

A taxable IRA distribution increases the recipient's adjusted gross income (AGI), which may increase income taxes and Medicare premiums. In the case of a QCD, the distribution is not included in AGI, and no charitable gift deduction is allowed. In many cases, the substantial increase in the standard deduction levels in recent years has resulted in limited or no tax benefits from charitable contributions. Consequently, QCDs have become more useful as a tax savings tool.

Consider the following two examples in which a QCD is preferable to receiving an RMD and donating a like amount to charity.

Example 1

Facts	Tax results	Primary reasons for the tax savings from the QCD
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| 1. Single person, age 73 | 1. Federal and Kentucky income tax without QCD – \$8,579 | 1. Minimal benefit from the charitable contribution deduction if no QCD |
| 2. RMD of \$14,000 | 2. Federal and Kentucky income tax with \$14,000 QCD – \$4,710 | 2. More social security would have been taxable due to the increased AGI if no QCD |
| 3. Social security benefits of \$30,000 | 3. Tax savings from QCD – \$3,869 (45%) | |
| 4. Other ordinary income of \$30,000 | | |
| 5. Charitable contributions of \$14,000 and minimal other itemized deductions | | |

Example 2

Facts	Tax results	Primary
1. Married couple filing jointly, each age 75 2. RMD of \$80,000 3. Social security benefits of \$50,000 4. Capital gains and qualifying dividends of \$100,000 5. Other ordinary income of \$150,000 6. State and local tax deductions of \$10,000 7. Charitable contributions of \$80,000	1. Federal and Kentucky income tax without QCD – \$62,478 2. Federal and Kentucky income tax with \$14,000 QCD – \$55,710 3. Tax savings from QCD – \$7,361 (12%)	1. Re 2. M AC

In limited situations, using a QCD may cost additional taxes. Consider the following example:

Example 3

Facts	Tax results	Primary reasons for the tax increase if a QCD is made
1. Married couple filing jointly, each age 75 2. Kentucky tax-free bond interest of \$35,000 3. Capital gains and qualified dividends of \$25,000 4. Wife receives a 401(k) plan distribution of \$100,000 5. Husband has a \$50,000 RMD from his IRA 6. Itemized deductions, other than charitable contributions, of \$18,000 of home mortgage interest and \$10,000 of state and local taxes 7. Charitable contributions of \$50,000	1. Federal and Kentucky income tax without QCD – \$32,667 2. Federal and Kentucky income tax with QCD – \$33,805 3. Tax cost from QCD – \$1,138 (3%)	1. Kentucky provides an exclusion from AGI of up to \$31,110 of retirement plan income. Had the QCD not been made, the couple would have had a \$50,000 charitable contribution deduction and would have been taxed by Kentucky on only \$18,890 (\$50,000 less \$31,110) of the RMD

Note that our examples may suggest that all of an IRA owner’s RMD may need to be distributed to charity to take advantage of the potential benefits of qualified charitable distributions. That is not a requirement. An IRA owner may

distribute only a portion of the RMD to charity as a QCD, taking the balance as a taxable distribution.

Several requirements must be followed to properly make a QCD. Please consult your tax advisor to help you determine if this could be a good tax planning tool in your situation.

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