Update: IRA Qualified Charitable Distributions (QCD) Under New Tax Law

The tax-advantageous tactic of donating to charities directly from an IRA after age 70½ remains a solid strategy. IRA qualified charitable distributions (QCD) were not affected by the Tax Cuts and Jobs Act (TCJA) for 2018.

A gift of up to $100,000 can be given directly to a qualified charity from the IRA and would not be taxable to the IRA owner. As opposed to a normal charitable gift, a QCD has these benefits:

- The QCD counts toward satisfying an individual's required minimum distribution for that year.
- The distribution is excluded from the taxpayer's income, resulting in a lower overall tax liability.

Clients should consult their tax advisor to see if this approach may fit within their financial strategy. To qualify, IRA QCD gifts may be made to Sec. 509(a)(1) and Sec. 170(b)(1)(A) public nonprofit organizations. This can also include Sec. 170(b)(1)(A) conduit foundations. It will be up to the client and their tax advisor to determine whether the charity is qualified. Additionally, the nonprofit organization usually knows if it qualifies and can provide that information.

A client must be 70½ at the time the distribution is taken (This is based on the specific date that the person turns 70½ rather than the year of that age change). The check, or stock, used for the QCD must be made payable directly to the charitable organization.

The maximum exclusion is $100,000 per year, per taxpayer. Additionally, spouses can each make up to $100,000 of QCDs. This will satisfy the RMD requirement (as long as the amount distributed meets or exceeds the RMD).

QCDs apply to distributions from traditional and Roth IRAs only (and not from SEPs or SIMPLEs where employer contributions are still being made). A beneficiary IRA may also be used for a QCD as long as the person (beneficiary) is age 70½.

It is important to let your tax preparer know that you have or will perform a QCD. If you don't, the preparer will most likely report this transaction as fully taxable, which would negate the benefit of your planning. QCDs will be reported as normal distributions by the IRA custodian. The Form 1099-R is not modified for this reporting. A distribution directly to a qualified charity will be reported on Form 1099-R in the same manner as a distribution made directly to the IRA owner. Procedures for the IRA owner to obtain the tax benefit will be part of their tax return Form 1040 instructions.