

QCDs and OB3

Quick-Take: One provision of the One Big Beautiful Bill Act (OB3) enhances the tax benefit of making a qualified charitable distribution (QCD.)

Background: The OB3 indirectly enhances the value of a qualified charitable distribution from a traditional IRA. Recall that this opportunity is only available to an individual who is then age 70 ½. In 2026 the maximum amount that can be distributed from a traditional IRA directly to charities (excluding donor advised funds, supporting organizations, and private foundations) is \$111,000.

OB3 Provision: The OB3 added a new provision that creates a 0.5% Adjusted Gross Income (AGI) floor that non-qualified charitable distribution contributions must exceed before they will be taken into consideration as itemized deductions. However, QCDs are not affected by this OB3 0.5% rule.

Example: Sandy, age 69, reports \$500,000 of AGI in 2026. The first \$2,500 [$0.05 \times \$500,000 = \$2,500$] of her charitable donations will not qualify as an itemized deduction if Sandy files Schedule A on her 2026 Form 1040.

Example: Sandy's husband Carl is age 74 in 2026. Carl also reports \$500,000 AGI for 2026. Carl can use any amount of his traditional IRA RMD amount, up to \$111,000, for a QCD. While Carl will not be able to claim an income tax deduction for the QCD amount, he will also avoid income tax on the IRA distribution. Carl's QCDs will continue to represent a 'perfect' deduction, where amounts that would otherwise be taxable as ordinary income (Carl's RMD amount) can be transferred to charities at a net \$0.00 cost.

High Earners: An even better tax outcome using QCDs is for those individuals who are in the highest marginal federal income tax bracket. Starting in 2026, the value of an itemized income tax deduction is limited to 35%. Accordingly, individuals who are in the top 37% marginal federal income tax bracket will actually pay about 2% net income tax rate on their charitable contributions, i.e., paying income tax at 37% but only reducing their taxable income by 35% due to the OB3 itemized deduction limit. If the high earning individual uses

a QCD for his/her charitable giving, he/she able to shift what would otherwise be taxable income to charities at no tax cost.

Conclusion: Individuals who are over the age 70½, who have charitable intent, and who are eligible to qualify to make a QCD, will find that a QCD is, especially after the OB3, the most tax efficient way in which to fulfill their charitable giving objectives.

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