QCDs and the OB3

Quick-Take: Charitable giving through a qualified charitable distribution (QCD) is almost always the most tax efficient way for the donor to carry out his/her philanthropy.

Background: In recent years there has been a dramatic increase in the popularity of making a qualified charitable distribution (QCD)from a traditional IRA to a charity. This is particularly the case for wealthier individuals who are faced with a required minimum distribution (RMD) obligation each year that increases their adjusted gross income for the year.

QCD's: In 2026 an IRA owner over the age 70 ½ can make a direct gift up to $111,000 to a qualified charity from his/her traditional IRA and have that distribution applied towards the owner's RMD for the year. A qualified charity is a publicly supported charity but not, however, a private foundation, a supporting organization, or a donor advised fund. While there is no income tax deduction for that direct distribution from the IRA to the qualified charity, the QCD amount is not included in the donor's adjusted gross income for the year and it is treated as satisfying, in whole or in part, the donor's RMD obligation for the year.

OB3: Using a QCD for charitable giving may be even more advantageous after the provisions contained in the One Big Beautiful Bill Act (OB3) are considered.

Avoidance of Deduction Phase-outs: The OB3 added a couple of new income tax deductions, such as the $6,000 senior deduction (erroneous referred to by the President as "tax-free Social Security") and the deduction for earned tip income. However, both of these new income tax deductions are phased-out as the earner's adjusted gross income (AGI) increases for the year. Accordingly, if a QCD is used to 'soak up' the donor's RMD for the year, that RMD will not increase the donor's AGI, thus making it easier for the donor to claim one of these new income tax deductions (which can be claimed whether or not the donor itemizes his/her income tax deductions.)

Itemized Charitable Deduction "Haircut:" The OB3 also introduced a new limitation to itemized charitable income tax deductions. It adds a 0.5% AGI *floor* that non-QCD

charitable contributions now face before that contribution counts as an itemized charitable income tax deduction.

Example 1 : Ira reports $500,000 as his adjusted gross income in 2026. Ira makes a charitable gift to his favorite charity. Ira is age 70 ½. Ira writes a check for $10,000 to his favorite charity. Because of the OB3's 0.5% AGI *floor* for any itemized charitable tax contribution, the first $2,500 of Ira's charitable gift in 2026 will not be deductible by him [0.5% X $500,000 AGI= $2,500.] Ira will only be able to claim $7,500 as an itemized charitable deduction on his 2026 income tax return, which offsets his reported AGI for 2026 by $7,500.

Example 2: Beverly reports $500,000 as her adjusted gross income in 2026. Beverly is age 70 ½. Beverly makes her $10,000 gift to charity as a QCD using her traditional IRA as the source of the gift. Beverly's QCD is not affected by the OB3 0.5% AGI *floor*. As such, the $10,000 direct gift to the charity from Beverly's IRA will reduce her AGI by the full $10,000 (not the $7,500 that Ira could claim as an itemized deduction.)

2/37th Itemized Deduction Limit: The OB3 also created another itemized deduction hurdle for those individuals in the 37% marginal federal income tax bracket. Individuals in the top 37% tax bracket actually will pay about a 2% net income tax rate on charitable contributions, which means that they will pay tax at the 37% rate but only reduce their taxable income by 35% because of this OB3 2/37th deduction limitation.

A QCD permits a wealthy individual in the 37% tax bracket who owns a traditional IRA to shift what would otherwise be taxable RMD income to a charity at no real *cost* to the donor.

Inherited IRAs: Dispelling some confusion, an individual who inherits an IRA is also eligible to make QCDs from that inherited IRA so long as he/she is age 70 ½, even if the inheritor is an eligible designated beneficiary (EDB) or a non-eligible designated beneficiary (NEDB.)

QCD Reporting Change: How a QCD is reported to the IRS recently changed. Previously QCDs were never separately reported on Form 1099-R. In the past, the tax preparer had to

determine whether the charity qualified [under IRC 170(b)(1)(A)] and confirm that it was not a DAF, supporting organization, or a private foundation. Last year the IRS announced that a new Code Y (for box 7 on Form 1099-R) will be available for 2025 to identify all QCD transfers. In October 2025, the IRS announced that the use of Code Y was optional for 2025. However, reporting using Code Y does not relieve the IRA owner of the other requirements to claim a QCD. Code Y on Form 1099-R should, though, act as a helpful reminder to report the QCD correctly on the donor's Form 1040.

Conclusion: With the OB3 there are now other good, tax-efficient reasons for an individual over the age of 70 ½ who owns a traditional IRA or an inherited IRA to use a QCD to carry out his/her charitable giving for the year.

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