

QCD's Again!

Quick-Take: The most tax effective way to make charitable gifts is with a qualified charitable distribution, or QCD.

Background: Qualified charitable distributions (QCDs) are a frequent topic for these missives, but since we are now approaching the end of another calendar year, charitable solicitations are beginning in earnest (judging by my mail and unsolicited text messages this week) it's time to revisit the utility of a QCD when making charitable gifts.

QCD Basics: QCDs can only be made from **IRAs**, and only when the IRA owner is over the age of **70 1/2**. The QCD is made **directly** from the donor's IRA by the IRA custodian to the charity. Most charities qualify as QCD recipients with only three major **exceptions: donor advised funds, supporting charitable organizations under IRC 509(a)(3), and private foundations**. [Some in Congress are advocating that QCDs should be able to use donor advised funds, but that is not currently the law.] The QCD donor **cannot get anything back** from the charity, so it is best to not use a QCD to purchase a dinner sponsored by the charity or use a QCD for a charity sponsored auction purchase. There is a dollar QCD limit which each year is adjusted for inflation; in 2026 that dollar **limit is \$111,000** per donor. Spouses can each make QCD charitable contributions from their respective IRAs (if they each qualify, e.g., each is age 70 1/2.) A QCD can also be used to **satisfy a legally binding charitable pledge**. With the SECURE 2.0 Act, another option was created for QCDs, which is the **one-time use of \$54,000 to purchase a charitable gift annuity**. The IRS has also confirmed that a QCD can be made by the beneficiary from his/her **inherited IRA**, so long as the beneficiary is over the age of 70 1/2.

QCD Tax Savings: The biggest income tax savings with a QCD is that it satisfies, in whole or in part, the IRA owner's required minimum distribution (**RMD**) **obligation for the year**. The taxable income paid in the form of the QCD is not included in the IRA owner's taxable income for the year. A companion rule is that the QCD is not deductible on the IRA owner's income tax return. In short, a QCD is a '**wash**' in that the QCD is neither taxable to nor tax deductible by the IRA owner. However, by not including the QCD amount in the donor's adjusted gross income (AGI) for the year, that can have a positive effect on the donor's Medicare Part B premium contribution obligation, or if still working with earnings, it can enhance the donor's ability to contribute to a Roth IRA, as both are tied to the donor's AGI amount for the year; with a smaller AGI the donor may escape (or reduce) the Medicare Part B premium contribution or be in a position to contribute more to a Roth IRA.

- **[Aside:** Recall that with RMDs, the first dollars removed from the individual's IRA once age 73 is attained are 'RMD dollars' which can neither be rolled-over nor can they be converted to a Roth IRA. This is why QCDs need to be directly paid by the IRA custodian to the charity and not distributed to the donor to then be forwarded to the charity as a QCD.]

OB3: The entire QCD produces income tax savings in yet another way that other forms of philanthropy cannot. The One Big Beautiful Bill Act (OB3) of 2025 created another incentive to use a QCD. The OB3 added a **0.5% limitation on itemized income tax deductions**, including an itemized charitable income tax deduction. As a result, a donor who itemizes his/her income tax deductions does not receive a dollar-for-dollar offsetting income tax deduction for every dollar that is given to charity. **But a QCD is not limited by the 0.5% itemized income tax deduction reduction.** Consequently, every dollar that is given to charity using a QCD effectively reduces the donor's taxable income for the year, which is not the case if the donor's philanthropy is done with gifts of property or cash by the donor to the charity.

[Aside: As a 'trade-off' for the 0.5% itemized income tax deduction limitation for charitable gifts, the OB3 also gives every taxpayer an 'above-the-line' cash charitable deduction opportunity of \$1,000.]

QCD Reporting: Briefly, when a QCD is used for philanthropy, it is reported on the donor's Form 1040 on sub-Line 15a, which reports the total amount of distributions from the donor's IRA. Line 16a then reports the 'taxable' amount of the distributions from the donor's IRA for the year. Assume the donor's RMD for the year is \$50,000. Assume that the donor directs his IRA custodian to distribute \$10,000 to the donor's church. His sub-Line 15a will report \$50,000. His sub-Line 16a will report the amount of \$40,000. On the far-right column the donor then writes 'QCD' next to the \$40,000 amount.

Conclusion: As mentioned above, if the donor is at least age 70 1/2, then by far the best way to make a tax efficient gift to charity is with a qualified charitable distribution from an IRA. Unlike other charitable gifts (ignoring the \$1,000 cash above-the-line charitable giving opportunity this year) which face a limit on the amount of the charitable gift that can be deducted on the donor's income tax return, every QCD dollar escapes taxation. In addition, most heirs would prefer to inherit their parent (or grandparent's) cash or stock portfolio with a basis step-up rather than the decedent's traditional IRA which carries with it income tax liability and is treated as income in respect of a decedent (IRD.)