Northwestern Mutual®

Qualified Charitable Distributions

Tax advantages of a distribution from an IRA directly to a charity

A qualified charitable distribution allows an individual to make a distribution from an IRA directly to a qualified charity without including that distribution (or a portion thereof) in gross income.[1] Moreover, a qualified charitable distribution (QCD) counts toward an individual's required minimum distribution (RMD).[2]

By avoiding income inclusion, the qualified charitable distribution ensures that (1) the individual is able to take full advantage of the charitable contribution regardless of any income or itemized deduction limitations, and (2) the amount does not impact any phase-outs relating to adjusted gross income (AGI) or modified AGI, such as taxation of social security and qualifying for the §199A pass-through deduction, among others.

Requirements of a qualified charitable distribution

To be a QCD, each of the following requirements must be satisfied.[3]

1) The individual must be 70½ or older on the date of the distribution.[4]

2) The distribution must be made to a public charity, private operating foundation or conduit private foundation.[5] The distribution may not be made to a donor-advised fund or supporting organization.

3) The distribution must come from an IRA, including a Roth IRA. This includes an inherited IRA if the beneficiary is 70½ or older on the date of the distribution.[6]

   The distribution cannot come from an ongoing SEP IRA or ongoing SIMPLE IRA.[7] A SEP IRA or SIMPLE IRA is ongoing if an employer contribution is made in the plan year.[8]

   Note, distributions from qualified plans, such as a 401(k) or 403(b), **are not eligible** to be QCDs.

4) The distribution must be paid directly by the IRA trustee to the charity. The donor's delivery of a check made payable to the charity by the IRA trustee is deemed to be paid directly to the charity.[9]

5) The entire amount of the payment to the charity must qualify for a charitable contribution deduction (without regard to AGI limitations). If the donor receives any benefit due to the QCD (*e.g.*, a $5,000

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[1] I.R.C. §408(d)(8). See below for a discussion of when a portion of a qualified charitable distribution may be included in income.
[2] Notice 2007-7, 2007-5 IRB 395, Q&A-42.
[3] I.R.C. §408(d)(8).
[4] Although the SECURE Act increased the age for required minimum distributions from 70½ to 72, qualified charitable distributions may still be made once an individual attains the age of 70½.
[5] A conduit private foundation is a private foundation that makes qualifying distributions equal to 100% of contributions received no later than the 15th day of the third month after the end of the tax year in which contributions are received. I.R.C. § 170(b)(1)(F)(ii).
[6] Notice 2007-7, 2007-5 IRB 395, Q&A-37.
[7] I.R.C. §408(d)(8)(B).
[8] Notice 2007-7, 2007-5 IRB 395, Q&A-36.
[9] Notice 2007-7, 2007-5 IRB 395, Q&A-41.

distribution to a charity to attend a dinner where the value of the dinner is $75), none of the payment qualifies as a QCD.

Note that this does not mean that all amounts distributed from the IRA in a year must qualify for a charitable contribution deduction. For example, assume an individual's RMD is $10,000. If the individual made a $5,000 QCD, the individual must withdraw an additional $5,000 from the IRA to satisfy the RMD (which is then included in income as any other distribution).

6) The aggregate amount of QCDs per individual must not exceed $100,000 annually. An amount in excess of $100,000 distributed from the IRA to a charity is not a QCD. The excess is included in income and treated as a charitable contribution by the individual.

Post-70 ½ IRA contributions limit QCD exclusion

Prior to the passage of the SECURE Act, individuals could not make contributions to traditional IRAs after age 70 ½. The SECURE Act eliminated the age restriction, permitting individuals with earned income to contribute to traditional IRAs no matter their age. Now, an individual can make both deductible contributions to a traditional IRA after age 70½ and excludable QCDs. The QCD exclusion is adjusted if contributions are made in any year beginning with the year in which the individual turns 70 ½ that are deducted (post-age 70 ½ contributions).

To eliminate any potential double tax benefit by having both deductible contributions to the IRA and income excluded due to a QCD, the QCD exclusion is adjusted.

To calculate the appropriate QCD exclusion, it is necessary for individuals to keep track of their post-age 70 ½ contributions. If an individual makes a QCD in a year, the amount that can be excluded from income is reduced by any post-age 70 ½ contributions, unless the post-age 70 ½ contribution offset a QCD in a prior year.[10]

The following chart illustrates how the exclusion adjustment works in practice. [11]

AGE AT END OF TAX YEAR	DEDUCTIBLE IRA CONTRIBUTIONS	TOTAL QCD	AMOUNT OF QCD EXCLUDED FROM INCOME	TAX DEDUCTIBLE CHARITABLE CONTRIBUTION INCLUDED IN INCOME
71	$6,000	$4,000	$0	$4,000
72	$5,000	$9,000	$2,000	$7,000
73	$4,000	$20,000	$16,000	$4,000

In the first year, no amount of the QCD is excluded from income because the deductible IRA contributions are greater than the QCD. In the second year, the $9,000 QCD is reduced by two amounts: (1) the $5,000 current year contribution, and (2) the $2,000 from the prior year that did not offset QCD. In the third year, only the current year's contributions reduce the QCD because all contributions from prior years already offset QCD amounts.

[10] IRC § 408(d)(8)(A). Note that IRA contributions made in the tax year are aggregated for these purposes.
[11] See IRS Notice 2020-68, Q&A B-5.

If the individual itemizes deductions, any QCD not excluded is considered a charitable donation eligible for an income tax deduction.

To avoid income inclusion of a portion of the QCD, the individual could elect to treat the deductible contribution to the IRA as nondeductible.[12] Alternatively, they may withdraw the deductible IRA contribution (by October 15th of the year following the year in which the contribution was made).[13]

IRA charitable planning alternatives

Distribution to the taxpayer, followed by a gift to the charity

One alternative to a QCD is to first include the amount of the distribution in the taxable income of the account owner, and then make a deductible charitable contribution. Any deductions would be subject to applicable AGI limitations and only available if the account owner itemizes.

Naming a charity or a charitable remainder trust (CRT) as beneficiary of the IRA

The IRA owner could name a charity or a CRT as the direct beneficiary of the IRA. Because a charity and a CRT are tax-exempt, the amounts distributed will not be subject to income tax.

With a CRT, annual payments could be paid to a non-charitable beneficiary based on a term or their life expectancy, and the assets remaining in the trust at the end of the trust term pass to charity.

Final thoughts

A QCD is a favorable method for making gifts to charities. It can fulfill an account owner's donative intent while at the same time avoiding income inclusion associated with IRA distributions, including RMDs. However, it is important to mind the details to take advantage of a QCD. After the SECURE Act, those details include not only the QCD requirements, but also tracking of post-age 70 ½ contributions.

Advanced Planning, October 2020

[12] IRC § 408(o)(2)(B)(ii).
[13] IRC § 408(d)(4).