How To Donate Your RMD Using Qualified Charitable Distributions

Can you give money to charity using your IRA? For individuals 70 1/2 or older - the answer is usually yes. What many retirees don't know is they can donate all, or a portion of, their required minimum distribution (RMD) directly to charity. It's called a qualified charitable distribution or QCD. You can also make charitable distributions directly from an IRA before RMDs begin. The Secure Act raised the RMD age for some taxpayers to 72, but didn't raise the QCD age from 70 1/2.

Qualified charitable distributions reduce your taxable income

A QCD can be a very tax-effective way to support a cause. However, as with any financial and tax strategy, it's important to first understand the details and limitations. Qualified charitable distributions do *not* provide a charitable deduction for taxpayers, regardless of whether the you itemize deductions.

Instead, with a qualified charitable distribution, a check is sent directly from an IRA to charity. This allows the donor to exclude the amount from taxable income. To illustrate the benefits, here are four ways RMDs can increase taxes**:**

1. **RMDs can push retirees into a higher tax bracket**. Since distributions are ordinary taxable income, it can push some retirees into a higher marginal tax bracket.
2. **Medicare surtax.** Required minimum distributions also increase the taxpayer's modified adjusted gross income, or MAGI, which could trigger the 3.8% Medicare surtax. The surtax applies to the lesser of net investment income or MAGI in excess of $200,000 for individuals or $250,000 for married couples filing jointly.

3. **Taxing Social Security.** Even modest withdrawals from a retirement account can cause Social Security benefits to become taxable, up to 85% for single filers with income above $34,000 annually or married couples with income above $44,000.
4. **Medicare Part B and D premiums** are calculated using a taxpayer's MAGI from the prior, prior year. So large RMDs can cause sharp increases to your Medicare costs, with the wealthiest taxpayers shouldering up to 80% of the cost.

For retirees who are charitable and over age 70 1/2, a qualified charitable distribution is worth considering.

What are the rules for qualified charitable distributions?

As with any tax strategy, it's important to pay close attention to the IRS rules. Here are some of the major ones:

- The retirement account owner must be age 70 1/2 or older.
- The annual QCD limit is $100,000 per account owner. Note: the limit can exceed the annual required minimum distribution.
- Donations must go directly from your IRA to the qualified public charity.
- Most types of IRAs qualify: traditional IRA, rollover IRA, inherited IRA, and inactive SEP and SIMPLE IRAs. Sometimes QCDs from Roth IRAs are allowed, but since distributions are usually tax-free, it probably doesn't make sense.
- QCDs only apply to taxable distributions. So if you've previously made non-deductible contributions, you'll need to do some extra math to figure out the tax benefits.

- Pay attention to ordering rules if your goal is to donate only your RMD to charity. Since the IRS will first satisfy the RMD with any withdrawals throughout the year, it's important to plan ahead, especially if taking monthly distributions.

Reporting a qualified charitable distribution on your tax return

Consult your tax advisor for advice before making QCDs or filing your tax return.

Tax benefits when using QCDs to donate to charity

QCDs can offer big tax savings as tax rates on regular income are usually the highest. But there are other ways to give to charity. If you don't benefit from itemizing your tax deductions and are of age, then QCDs could be a good option. Before deciding on a charitable giving strategy, consider other ways to give, including giving appreciated stocks, donating cash, and bunching donations to benefit from itemizing deductions.