

QUALIFIED CHARITABLE DISTRIBUTIONS

How They Can Benefit Your
Philanthropic Goals & RMD
Withdrawal Strategy



With the passage of the SECURE 2.0 Act of 2022, the age at which you must begin taking required minimum distributions (RMDs) from your individual retirement account (IRA) each year increased to age 73. Since an RMD is considered taxable income for the year in which the distribution is made, depending on the size of your IRA, this may push you into a higher tax bracket resulting in an unusually high income tax bill.

If you have philanthropic goals, the IRS offers some tax relief through a Qualified Charitable Distribution (QCD), which enables you to make a tax-free gift of up to \$105K¹ directly from the IRA to one or more charities.

To qualify as a QCD, there are certain requirements that must be met:

- You must be age 70½ or older at the time the QCD is made.
- Since the QCD limit is per taxpayer, if you have multiple IRA accounts, the QCD cannot exceed the limit across all accounts.
- The QCD must be made directly to a qualified charity as defined by the Internal Revenue Code. If the RMD is distributed to you and then you distribute the funds to the charity, the distribution will not qualify as a QCD.
- If you are still making contributions to the IRA, the amount of the QCD must be reduced by the amount of the contributions made in the year in which the QCD is made.

- Beginning in 2023², you are permitted to use \$53K of the QCD to make a one-time split-interest contribution to a charitable remainder annuity trust (CRAT), charitable gift annuity (CRA), or charitable remainder trust (CRT).
- The QCD must be made before the end of the calendar year to count toward your RMD for that year.
- Married couples may each make a QCD from their own IRA directly to a qualified charity each year.

Eligible Charities

To qualify as a QCD, the IRA distribution must be made directly from the IRA custodian to a qualified charity. Internal Revenue Code Section 170(b)(1)(A) essentially defines this as a public charity, therefore contributions to a private foundation or donor-advised fund managed by a charity are ineligible. Before donating, we recommend that you notify the charity of the contribution, so it can confirm receipt from the IRA custodian.

¹Beginning in 2024, the QCD limit of \$100K is indexed for inflation. The QCD limit in 2025 is \$108K.

²Beginning in 2024, the one-time \$53K limit to contribute to a CRAT, CGA, CRT is indexed for inflation. This amount increases to \$54K in 2025.

Tax Benefits

In addition to the benefits of giving to charity, QCDs also offer some tax relief. They are excluded from taxable income without the need to itemize deductions; however, you should obtain a receipt from the charity. When you leverage a QCD rather than taking an RMD and gifting cash, the full amount of the QCD is tax-free.

In addition, the tax treatment of a QCD differs from a charitable contribution, which is an itemized deduction subject to the charitable contribution limits against adjusted gross income (AGI). Currently, if you make a cash gift to charity, the maximum amount you can deduct against taxable income is 60% of your AGI. If you donate stock (owned for more than one year), the maximum amount you can deduct against taxable income is 30% of AGI. Also, since you are not selling the stock, you avoid incurring capital gains tax on any appreciation. If the deduction exceeds the AGI limits,

the excess deduction may be carried over to later tax years, subject to certain limitations.

Is a QCD Right for You?

A QCD can allow you to satisfy your philanthropic goals while reducing the tax impact of an RMD. Keep in mind, however, that while a QCD can be made once you reach age 70½, if you have not begun taking RMDs, the QCD benefit may not be as impactful.

For some individuals, donating appreciated stock and receiving the tax deduction will be the most tax-efficient approach. For others, a QCD will be optimal. The best approach may even vary from one year to the next, depending on the particulars of your situation. We strongly encourage you to work with your tax adviser and/or attorney to ensure that a QCD is the most tax-advantageous option for you and that it is implemented (and reported) properly to fit your overall financial and estate plans.

First Manhattan – Here to Help

There are many ways to support your charitable beliefs while deriving tax benefits. If you would like to learn more about this topic, please contact your First Manhattan Wealth Management team.

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