Qualified Charitable Distributions from an IRA

IRA owners who are age 70 ½ or older and charitably inclined may consider making Qualified Charitable Distributions (QCDs) from their IRAs as a tax efficient way to fund charitable goals.

First introduced by the Pension Protection Act of 2006, qualified charitable distribution provisions allowed taxpayers meeting certain requirements to make tax-free charitable donations directly from their IRAs. This provision was originally scheduled to expire in 2007 but was extended and finally made its way into permanent legislation with the Protecting Americans from Tax Hikes (PATH) act of 2015.

A qualified charitable distribution allows IRA owners who are age 70 ½ or older to transfer funds directly from their IRAs to a qualified 501(c)(3) charity and avoid paying federal income tax on the distribution. The annual QCD limit had remained at $100,000 since its inception in 2016. However, beginning in 2024, the limit has begun to index with inflation. The QCD limit for 2025 is $108,000.

Married couples can each make a QCD up to $108,000 each for a potential limit of $216,000, adjusted for inflation, from their own IRAs. Because QCD distributions are excluded from gross income for federal income tax purposes, the donation is not further eligible for a federal charitable tax deduction.

The exclusion from gross income provides a tax efficient way for taxpayers who do not itemize deductions to make a charitable contribution.

There is potentially more good news. Since QCDs do not increase adjusted gross income (AGI), donors may avoid triggering phaseouts which may eliminate certain tax deductions, and it may help to lower Medicare premiums and decrease the amount of Social Security income that is subject to tax. A lower AGI may also allow for larger deductions for medical expenses, passive losses from active participation in rental real estate, and lower the net investment income tax (Medicare tax). Furthermore, since QCDs are not counted as taxable income, they do not affect charitable contribution AGI limitations for those who itemize their charitable deductions, allowing donors to make larger charitable gifts.

The SECURE Act raised the age at which you must start taking required minimum distribution (RMDs) from tax-deferred retirement accounts, but left the QCD age at 70 ½.

In addition to the benefit the charity receives, qualified charitable distributions count toward satisfying all or part of any RMD that you are required to take from your IRA. You may make a QCD in excess of your RMD; however, amounts greater than the current year's RMD do not count toward satisfying a future year's RMD. QCD amounts greater than $108,000, adjusted for inflation, per calendar year cannot be carried over to a future year and the excess would be treated as a taxable distribution; however, you may be able to take a federal charitable deduction for the excess if you itemize your deductions.

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The age at which owners of retirement accounts must start taking RMDs increased to 73 on January 1, 2023. Individuals who turned 72 prior to December 31, 2022 and those who turned age 70 ½ prior to January 1, 2020 will need to continue taking RMDs as scheduled. SECURE Act 2.0 pushed the age at which RMDs must start to 75 for those who attain age 75 on or after January 1, 2033.

In addition to raising the RMD age, the passage of the SECURE Act now allows for continued contributions to a traditional IRA even after reaching age 70 ½ as long as the IRA owner has earned income. Be careful if your intention is to make contributions and QCD withdrawals since IRA contributions made after age 70 ½ cannot be turned around and used as QCDs. Doing so would reduce the amount of QCD and may create a taxable event.

How it works

- You must have attained age 70 ½ on or after the date of the QCD, not simply in the year you turn age 70 ½
- The QCD must go to a qualified charity and must be a direct transfer from your IRA trustee to the charity
- Distributions you receive from your IRA cannot retroactively be made into a QCD
- The QCD must be one that would otherwise have been a taxable distribution. After-tax dollars in the IRA cannot be used to make a QCD
- QCDs must come from an IRA or Rollover IRA, not a 401(k) or qualified employer plan. You may be able to roll the assets from a profit sharing or pension plan and then make the QCD transfer from the IRA
- Beneficiaries of an inherited IRA can make a QCD but must also be age 70 ½ or older at the time of the QCD
- QCDs can be made from SEP and SIMPLE IRAs as long as the employer has not made a contribution to the account in the calendar year the QCD is made. In other words, it must be considered an inactive account
- The QCD must be an outright gift to charity. Under a new provision in the SECURE Act 2.0, individuals ages 70 ½ and older can make a once-in-a-lifetime distribution directly to one or more charitable gift annuities (CGA) or charitable remainder trusts (CRT), which will be treated as a QCD and will count against the annual QCD limit. For 2025, the CGA or CRT limit is $54,000, which will be indexed annually. Individuals can exercise this option over a single calendar year only once during your lifetime
- It is important to note that not all states conform to federal income tax law with respect to QCDs, and income tax rules vary by state
- QCDs must be made by December 31 to count toward an RMD for the calendar year
- Individuals who want to reduce their RMD income should first make a QCD directly from the IRA to the qualifying charity, then take their annual RMD, as the first dollars withdrawn from an IRA in any year (from an owner that is subject to RMDs) are deemed to satisfy the RMD. This rule is referred to as the "first-dollars-out" rule

Qualified charitable distributions can be an effective tool as you execute your philanthropic plan. We encourage you to speak with your William Blair wealth advisor and learn more about our wealth planning and philanthropic services.