



**SMART INSIGHTS FROM PROFESSIONAL ADVISERS**

# **10 Things Anyone Considering a QCD Should Know**

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## Givers and getters can benefit from this charitable giving tax strategy by donating their RMDs, but there are several rules that you need to follow.

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Maybe you didn't pay much attention to all the ramifications of the tax reforms that took effect in 2018. Or maybe you thought you'd wait and see how things actually played out on your tax return before you made any strategic changes.

By now, though, you probably know: Thanks to the Tax Cuts and Jobs Act's higher standard deduction — which doubled to \$12,000 for single filers and \$24,000 for joint filers in 2018, and will be \$12,200 and \$24,400 in 2019 — fewer taxpayers are itemizing on their returns.

That might make doing taxes easier, but those who use the standard deduction miss out on several popular tax breaks, including claiming a deduction for any donations they make to a qualified charity.

Whether you're an occasional writer of small checks to your favorite cause or a regular and generous donor, that could mean a hit to your tax bill. It also will hurt those charities' bank accounts, if donors who were partially motivated by the tax break decide to no longer give.

Fortunately, there is a strategy that can keep both givers (at least those who are retirement age) and getters on course with charitable donations. Taxpayers age 70½ and older can use a qualified charitable distribution (QCD) to donate up to \$100,000 annually directly from a traditional IRA to an eligible public charity without counting that amount as taxable income. Instead, it would count toward your required minimum distribution (RMD) and reduce the taxable amount of your mandatory withdrawal.

Using your RMD as a charitable contribution will exclude that amount from your adjusted-gross income (AGI) for the year, which means that in addition to reducing your income taxes, it also can decrease the amount of Social Security that is subject to tax and potentially lower your Medicare premiums. (You may be able to take a QCD from a Roth IRA, but there is no tax advantage.)

If this sounds like a strategy that could work for you, here are some things you need to know:

**1. Each person can donate the full amount of his or her RMD, up to a maximum of \$100,000 annually.**

If you're a married couple filing jointly and you each have your own IRA, you both can use the \$100,000 QCD rule.

**2. You should work with your IRA custodian to correctly accomplish a QCD.**

Be careful not to withdraw the funds or deposit the RMD into your personal account and then write a personal check. The funds must be made payable directly from the IRA to the charity. (Some IRA custodians mail the check to the IRA owner; if that's the case for you, simply give the check to the charity.)

**3. Be sure to inform your tax preparer that you did a QCD**

Your IRA custodian will send you a 1099 showing that the distribution occurred, but the amount may not be clearly identified as a QCD. Be sure the QCD is correctly listed on your tax return or you'll lose the tax break.

**4. It's permissible to use less than the full RMD for the charitable distribution.**

So, for example, if you have an RMD of \$6,000 and you want to give only \$4,000 to charity, you still would need to withdraw the remaining \$2,000 and pay taxes on it. (Taking the incorrect amount for your RMD could result in a hefty penalty.)

**5. You can make a QCD that exceeds your RMD for a given year.**

However, that extra distribution can't be carried over to meet the RMDs for future years.

**6. You can distribute the money to multiple charities if you choose.**

The \$100,000 per person limit applies to the sum of all QCDs taken from all your IRAs in the tax year. You can make one large contribution or several smaller contributions to one or more charities.

**7. Donors cannot receive any benefit for making a qualified distribution to a charity**

So, for example, you can't use a QCD to purchase something at a charity auction or tickets to a charity event.

**8. For a QCD to count toward your minimum annual IRA distribution, it must meet the same deadline as a normal distribution.** (Usually Dec. 31.)

**9. Not every organization or cause qualifies for a QCD.**

The organization must be a 501(c)(3). A QCD can't be made to donor-advised fund sponsors, private foundations or supporting organizations. Before you arrange for the transfer of funds, be sure the charity is eligible.

**10. The first dollar out of an IRA is considered to be the RMD.** So, if you take money out early in the year, that distribution would count toward your RMD and you could potentially lose the tax benefit of the QCD. Say for example John, who is 75, takes his full RMD in February and deposits the funds into his bank account. In November, he wants to do a QCD. John cannot retroactively deem the February distribution to be a QCD. He must take an additional distribution if he still wishes to do a QCD for that calendar year. That income can be excluded, but it still won't offset the income from the RMD taken earlier in the year.

If you're already 70½ but the QCD strategy is new to you, be sure to discuss your specific situation and any questions with a qualified tax professional. If you haven't turned 70½ yet, it's still worth having a conversation about how to prepare to take advantage of this strategy in the future.

For those who are charitably inclined and won't be able to itemize their deductions, a QCD can be a win-win: You get to satisfy your RMD and exclude income from your AGI, and the charity or charities that are important to you will continue to benefit from your generosity.

*Kim Franke-Folstad contributed to this article.*

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