What are Qualified Charitable Donations (QCDs)?

Qualified Charitable Donations (QCDs) are direct transfers of funds from an Individual Retirement Account (IRA) to a qualified charity. They are available to individuals aged 70½ or older and allow for donations of up to $111,000 per year without the donated amount being included in taxable income. This can be a beneficial strategy for managing taxes while supporting charitable causes.

Key Features of QCDs

Eligibility: Must be 70½ years or older.

Donation Limit: Up to $111,000 per year.

Tax Benefits: Amount donated is excluded from taxable income, but included in the Required Minimum Distribution from an IRA or IRAs.

Direct Transfer Requirement: Funds must be sent directly from the IRA custodian to the charity. Although the check can be mailed to the giver for delivery to the charity.

How to Use Qualified Charitable Donations

Using QCDs involves a few straightforward steps:

Steps to Make a QCD

Confirm Eligibility:

Ensure you are at least 70½ years old.

Verify that your IRA is eligible (traditional, rollover, or inherited IRAs).

Choose a Qualified Charity:

The charity must be a qualified 501(c)(3) organization.

Check that the charity can accept QCDs (some organizations like donor-advised funds and private foundations are ineligible).

Initiate the Transfer:

Contact your IRA custodian to request the transfer.

Specify the amount and the charity's details for the direct transfer. You can have a check made out to the charity, with its address, but sent to your address for delivery to the charity, or directly mailed to the charity.

If you want the check to go to SC but you will deliver by hand, you should ask that the check to be made out to SOUTHCOAST CHURCH, 5814 Cathedral Oaks Road, Goleta, Ca 93117...C/O Your Name and address.

Important Considerations

RMD Fulfillment: QCDs can count toward fulfilling your required minimum distributions (RMDs) .

No Tax Deduction: While QCDs reduce taxable income, they do not qualify for a charitable contribution on Itemized Deductions, since the money does not show up in your income for tax purposes.

Excess Donations: Any amount donated over your Required Minimum Distribution (RMD) does not carry forward to future years.

By following these steps, you can effectively use QCDs to support your favorite charities while optimizing your tax situation.

Example

Let's say you are over 70 1/2 and your IRA Required Minimum Distribution is $50,000 and your total Taxable Income is $75,000. And you Tithe $7,500.

Your Taxes would be
Federal Tax (22% Bracket) = $11,212
California Tax (9.3%) = $ 6,975
Total Taxes = $18,187 What you would pay the governments.

Using a QCD of $7,500 your Taxable Income would be $75,000-$7,500=$67,500
You Taxes would be
Federal Tax (22% Bracket) = $9,562
California Tax (9.3%) = $6,278
Total Taxes = $15,840 What you would pay the governments.

This gives you a total tax savings of $2,340 or 13% savings. You could give this additional amount to the church for a total tithe of $9,848 or keep it for yourself...either way you come out ahead!