QCD REMINDERS AND PITFALLS

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Less than two weeks into the new year seems like a good time to provide a few reminders and warnings when it comes to Qualified Charitable Distributions (QCDs). As a quick refresher, remember these QCD facts:

- Only available to IRA (and inherited IRA) owners who are age 70½ and over.
- Capped at $100,000 per person, per year. (For a married couple where each spouse has their own IRA, each spouse can contribute up to $100,000.)
- QCDs cannot be done from employer plans – like a 401(k).
- Only applies to direct transfers of IRA funds to charities and not gifts made to private grant making foundations, donor advised funds or charitable gift annuities.
- No deduction can be taken for the charitable contribution, and nothing can be received in return for the donation (like a T-shirt or tote bag).

We suggest doing QCDs early in the year to avoid any conflict with the "first-dollars-out rule." The first dollars withdrawn from an IRA are deemed to be the RMD (required minimum distribution). If an IRA owner is looking to offset the income from an RMD with a QCD, those transactions must be done in conjunction with each other. You cannot take an RMD payment and then decide to retroactively do a QCD with those same dollars. As mentioned in the facts above, a QCD "only applies to direct transfers of IRA funds to charities." QCDs can be done after an RMD is taken, but the QCD will be an additional distribution on top of the RMD.

The first-dollars-out rule is not the only pitfall that can disrupt a QCD. Some IRA accounts are allowed check-writing privileges. Checks written to a charity from a "checkbook IRA" do qualify as a valid QCD. However, these IRA checks have the potential to cause QCD havoc. While a good-intentioned IRA owner may have written the check to a charity in late December, the custodian may not recognize the distribution until the check is cashed! If you wrote a checkbook IRA check to charity in December last year, it is recommended that you confirm the check was also cashed by the charity in 2021. Otherwise, the custodian could justifiably code the transaction as a 2022 QCD. Compounding the problem, if the IRA QCD check was also intended to offset the 2021 RMD, and if the check wasn't cashed, we could have a missed RMD situation.

One final QCD pitfall to be aware of – the potential for a QCD to be taxable. We know that QCDs are used to exclude the donation amount from income. However, there is a situation when the QCD can become a taxable distribution.

The SECURE Act eliminated the 70 ½ age limitation for contributing to an IRA. If you have earned income at any age, you can now contribute to an IRA. However, if you are 70 ½ or older and make a deductible IRA contribution, any subsequent QCD (up to the amount of the deductible contribution) will be taxable. The IRS considers this double dipping. The amount of the deductible contribution will offset the same amount of a QCD, no matter how far into the future the QCD is done. As such, our recommendation is to not make deductible IRA contributions when also doing QCDs. Consider a Roth contribution instead.

While the holidays were the season of giving – be sure you gave properly with your QCD.