

THE SIMULTANEOUS QCD/RMD TRANSACTION

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Qualified charitable distributions (QCDs) and required minimum distributions (RMDs) are two separate and distinct transactions. Here are some of the basics of each:

QCDs are only available to IRA owners and beneficiaries age 70½ or older. You cannot do a QCD from a 401(k) plan. The QCD limit for 2026 is \$111,000. With a QCD, IRA funds are sent directly to a qualifying charity, and no goods or services can be received for the donation. Assuming all the rules are followed, the amount of the QCD is excluded from the IRA owner's income. And since charities do not pay tax, the result is that no taxes are ever paid on the donated dollars.

RMDs are forced withdrawals from traditional IRAs (and from the pre-tax portion of a company retirement plan). When a person reaches a certain age (currently age 73), IRA RMDs must begin. The purpose of an RMD is to force a taxable distribution from what has been a tax-deferred pot of money. Congress allows IRA owners to shelter funds for decades. At age 73, it is time to pay the piper. Understandably, many IRA owners are not thrilled about forced withdrawals and a potentially elevated tax bill.

However, by combining the QCD and RMD rules, a person can satisfy their RMD, avoid any taxes due, and donate to charity all at the same time.

Where people get sideways with QCDs and RMDs is when it comes to timing. A common saying is, "Do your QCD before your RMD." The purpose of this phrase is to ensure a person does not miss the opportunity to offset RMD income with a QCD. Once a normal (non-QCD) RMD is taken, that income cannot be offset with a future QCD. There is no such thing as a "prior-year" QCD or a "retroactive" QCD. If a person takes their RMD, those funds will be taxable.

But the "do your QCD before your RMD" axiom is misleading. If the goal is to offset all or a portion of an RMD, then the QCD and RMD are done simultaneously. We do not have two separate distributions. There is a single distribution that counts as both a QCD and RMD.

Example: Mike, age 75, has an IRA RMD of \$10,000. If Mike's RMD is distributed directly to him, then \$10,000 will be included in his taxable income. Mike wants to avoid paying any tax on his RMD. So, he requests that his IRA custodian process a \$10,000 QCD to Mike's favorite charity. Upon the IRA custodian sending the check to the charity, Mike has killed two birds with one stone. Simultaneously, a QCD was completed, and Mike's RMD was satisfied.

As mentioned, once a normal RMD is taken, a later QCD cannot offset the income from that earlier distribution. Yes, a person can do a QCD after satisfying their RMD, but that later QCD will just be an additional distribution over and above what was already distributed. Keep in mind that QCDs are not done “before” an RMD. When offsetting the income of an RMD with a QCD, a lone transaction simultaneously satisfies both the RMD as well as delivering funds to a charity as a QCD.

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