Charitable Contributions from IRAs

Background

The Pension Protection Act of 2006 first allowed taxpayers age 70½ or older to make tax-free charitable donations directly from their IRAs. Technically, these taxpayers were allowed to exclude from gross income otherwise taxable distributions from their IRA ("qualified charitable distributions," or QCDs), up to $105,000, that were paid directly to a qualified charity. These gifts are also known as "Charitable IRA rollovers." The law was originally scheduled to expire in 2007, but was extended periodically through 2014 by subsequent legislation, and finally made permanent by the Protect Americans from Tax Hikes (PATH) Act of 2015.

How QCDs work

You must be 70½ or older in order to make QCDs. You direct your IRA trustee to make a distribution *directly* from your IRA (other than SEP and SIMPLE IRAs) to a qualified charity. The distribution must be one that would otherwise be taxable to you. You can exclude up to $105,000 of QCDs (indexed for inflation) from your gross income each year, thereby avoiding taxation on those amounts. If you file a joint return, your spouse can exclude an additional $105,000 of QCDs. Note: You don't get to deduct QCDs as a charitable contribution on your federal income tax return — that would be double-dipping.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to receive from your IRA, just as if you had received an actual distribution from the plan. However, distributions that you actually receive from your IRA (including RMDs) that you subsequently transfer to a charity cannot qualify as QCDs.

Example(s): *Assume that your RMD for 2024, which you're required to take no later than December 31, 2024, is $25,000. You receive a $5,000 cash distribution from your IRA in February 2024, which you then contribute to Charity A. In June 2024, you also make a $15,000 QCD to Charity A. You must include the $5,000 cash distribution in your 2024 gross income (but you may be entitled to a charitable deduction if you itemize). You exclude the $15,000 of QCDs from your 2024 gross income. Your $5,000 cash distribution plus your $15,000 QCD satisfy $20,000 of your $25,000 RMD for 2024. You'll need to withdraw another $5,000 no later than December 31, 2024, to avoid a penalty.*

Example(s): *Assume you turn 73 in 2024. You must take your first RMD (for 2024) no later than April 1, 2025. You must take your second RMD (for 2025) no later than December 31, 2025. Assume each RMD is $25,000. You don't take any cash distributions from your IRA in 2024 or 2025. On March 31, 2025, you make a $25,000 QCD to Charity B. Because the QCD is made prior to April 1, it satisfies your $25,000 RMD for 2024. On December 31, 2025, you make a $75,000 QCD to Charity C. Because the QCD is made by December 31, it satisfies your $25,000 RMD for 2025. You can exclude the $100,000 of QCDs from your 2025 gross income.*

As indicated above, a QCD must be an otherwise taxable distribution from your IRA. If you've made nondeductible contributions, then normally each distribution carries with it a pro-rata amount of taxable and nontaxable dollars. However, a special rule applies to QCDs — the pro-rata rule is ignored and your taxable dollars are treated as distributed first. (If you have multiple IRAs, they are aggregated when calculating the taxable and nontaxable portion of a distribution from any one IRA. RMDs are calculated separately for each IRA you own, but may be taken from any of your IRAs.)

Caution: *The gift cannot be made to a private foundation, donor-advised fund, or supporting organization [as described in IRC Section 509(a)(3)]. Generally, the gift cannot be made in exchange for a charitable gift annuity or to a charitable remainder trust; however, the SECURE 2.0 Act of 2022 included a provision that allows for a one-time distribution of up to $53,000 to a charitable remainder annuity trust, a charitable remainder unitrust, or a charitable gift annuity.*

Caution: *Due to the SECURE Act of 2019, individuals can make contributions to their traditional IRAs after reaching age 70½. If individuals make deductible traditional IRA contributions in the year they reach age 70½ or later, the amount of a charitable distribution that can be excluded from income as a QCD may be reduced; however, any amount that cannot be treated as a QCD could qualify as a charitable deduction (assuming deductions are itemized).*

Why are QCDs important?

Without this special rule, taking a distribution from your IRA and donating the proceeds to a charity would be a bit more cumbersome, and possibly more expensive. You would need to request a distribution from the IRA, and then make the contribution to the charity. You'd receive a corresponding income tax deduction for the charitable contribution, if you choose to itemize. But the additional tax from the distribution may be more than the charitable deduction, due to the limits that apply to charitable contributions under Internal Revenue Code Section 170. QCDs avoid all this, by providing an exclusion from income for the amount paid directly from your IRA to the charity — you don't report the IRA distribution in your gross income, and you don't take a deduction for the QCD. The exclusion from gross income for QCDs also provides a tax-effective way for taxpayers who don't itemize deductions to make charitable contributions.

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