



Senior tax-saving alert: Make charitable donations from your IRA

If you've reached age 70½, you can make cash donations directly from your IRA to IRS-approved charities. These qualified charitable distributions (QCDs) may help you gain tax advantages.

QCD basics

QCDs can be made from your traditional IRA(s) free of federal income tax. In contrast, other traditional IRA distributions are wholly or partially taxable, depending on whether you've made nondeductible contributions over the years.

Unlike regular charitable donations, you can't claim itemized deductions for QCDs. That's OK because the tax-free treatment of QCDs equates to a 100% deduction.

To be a QCD, an IRA distribution must meet the following requirements:

1. It can't occur before you're age 70½.
2. It must meet the normal tax-law requirements for a 100% deductible charitable donation.
3. It must be a distribution that would otherwise be taxable.

New provision

Under the SECURE 2.0 Act, the annual QCD limit is now adjusted for inflation. In 2024, the limit is \$105,000, up from \$100,000 last year. In 2025, it will jump again to \$108,000.

If both you and your spouse have IRAs set up in your respective names, each of you is entitled to a separate QCD limit. If you inherited an IRA from the deceased original account owner, you can make a QCD with the inherited account if you've reached age 70½.

Tax-saving advantages

QCDs have at least five tax-saving advantages:

1. They aren't included in your adjusted gross income (AGI). That lowers the odds that you'll be affected by unfavorable AGI-based rules or hit with the 3.8% net investment income tax on your investment income.
2. They always deliver a tax benefit, while "regular" charitable donations might not. The Tax Cuts and Jobs Act significantly increased standard deduction amounts, and you only get a tax benefit from a charitable donation if your total itemizable deductions exceed your standard deduction. Also, deductions for "regular" charitable donations can't exceed 60% of your AGI. QCDs are exempt from that limitation.
3. For 2024 and 2025, you're subject to the IRA required minimum distribution (RMD) rules if you turn 73 during the year or are older. RMD amounts will be fully or partially taxable depending on whether you made any nondeductible contributions over the years. QCDs made from your traditional IRA(s) count as RMDs. That means you can donate all or part of your annual RMD amount — up to the applicable annual QCD limit — that you'd otherwise be forced to receive and pay taxes on. In effect, you can replace taxable RMDs with tax-free QCDs.
4. Say you own one or more traditional IRAs to which you've made nondeductible contributions over the years. Your IRA balances consist partly of a taxable layer (from deductible contributions and account earnings) and partly of a nontaxable layer (from nondeductible contributions). Any QCDs are treated as coming first from the taxable layer but they're tax-free. Any nontaxable amounts are left behind in your IRA(s). Later, you or your heirs can withdraw the nontaxable amounts tax-free.
5. They decrease your taxable estate. However, that's not a concern for most folks with today's large federal estate tax exemption (\$13.61 million in 2024 and \$13.99 million in 2025).

Act before year end

The QCD strategy is a tax-smart opportunity for many people. It's especially beneficial for seniors with charitable inclinations and more IRA money than they need for retirement. Contact us if you have questions or want assistance with QCDs.