

What You Need to Know About Qualified Charitable Distributions

A Qualified Charitable Distribution (QCD) is a tax strategy that allows those 70½ and over to give up to \$100,000 to a charity directly from your Individual Retirement Account (IRA) without counting the distribution as taxable income. Making your charitable contribution by a QCD rather than a personal check may result in a lower Federal tax liability, lower Medicare Part B & D premiums, or both.

If you're considering a QCD, here's what you need to know:

- ▶ After reaching age 70½, you can make QCDs of up to \$100,000 per year directly from your IRA(s).
- ▶ Deductible IRA contributions made for the year you reach age 70½ and later years will reduce your annual QCD allowance¹.
- ▶ The charity must be a "public" charity approved by and listed on www.irs.gov. Not all charities qualify.
- ▶ Your IRA holding company must make the check payable to the charity, withhold no taxes and send the check to you to forward to the charity.
- ▶ Keep a copy of the check for your tax records and make sure you receive a letter or acknowledgement from the charity stating the amount of your gift and that no goods or services were received in exchange for it.
- ▶ Your 1099-R (for the year the contribution was made) will report your full distribution as taxable income. Report the full IRA distribution from the 1099-R on line 4a of your 1040, subtract the QCD amount from line 4a to get the taxable amount to report on line 4b and write QCD next to it.

QCDs carry two potential benefits:

- ▶ Charitable gifts using a QCD may provide a tax break regardless of whether you itemize or take a standard deduction. Beginning in 2020, the standard deduction for a single filer 65 and older is \$14,050 and for married filing jointly, both spouses 65 and over is \$27,400. These thresholds are almost double what they have been in prior years.
- ▶ Your modified adjusted gross income (MAGI) determines your Medicare Part B and D premiums. A QCD reduces your MAGI, which may reduce your Medicare Part B and D premiums.

To use a QCD:

- ▶ Consult me or your tax advisor if you have questions.
- ▶ Compile a list of the charities you plan to donate in the current tax year and stop making regular contributions to these charities since the QCD will replace them.
- ▶ Contact your IRA holding company before they make your scheduled RMD withdrawal for the current tax year.
- ▶ Request a QCD and take the balance (if any) of your RMD as originally planned. The charity must cash the QCD check no later than December 31 of the current tax year.

¹Effective for QCDs made in a tax year beginning after 2019, the \$100,000 QCD limit for that year is reduced by the aggregate amount of deductions allowed for prior tax years due to the SECURE Act.

This is not meant to be a complete description of QCD or to be used as tax advice. Consult your tax advisor for complete rules or review IRS Publication 590.

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