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New Incentives for Qualified Charitable Distributions

The new law enhances the benefits of making "qualified charitable distributions" (QCDs) from a taxpayer's IRAs.

Ken Berry • Mar. 14, 2023

The SECURE Act 2.0, passed late in 2022, provides more flexibility for certain senior citizens who want to benefit charities while meeting their tax obligations. The new law enhances the benefits of making "qualified charitable distributions" (QCDs) from a taxpayer's IRAs.

Background: Under a special tax code provision, someone age 70½ or older can elect to transfer funds directly from an IRA to a qualified charitable organization. This QCD, also called a "charitable rollover" in some circles, is limited to $100,000 per year ($200,000 for a married couple if each separately qualifies). Although you can't take a tax deduction for your generosity, you aren't taxed on the distribution like normal, either. It's a virtual tax wash.

But there could be other positive side effects to the deal. For example, other tax law provisions might limit your charitable deduction. Also, this technique may effectively reduce the tax owed on Social Security benefits while lowing your adjusted gross income (AGI) for other tax purposes.

Key point: Significantly, a QCD counts as a required minimum distribution (RMD). Under the current rules, you must start taking RMDs from your IRAs after you've reached age 73. This age threshold, which was set at age 70½ for decades, was recently increased to age 72 by the first SECURE Act and now again to 73 by SECURE Act 2.0, beginning in 2023. (It will go up to age 75 in 2033.)

Thus, even though you can't claim charitable deductions, you can avoid the usual tax imposed on RMDs. This is often a smart tax move for individuals in their seventies and eighties.

Note: The distribution must go directly from the IRA trustee to the charitable organization. Therefore, you can't use the funds briefly and then transfer the cash to the charity. You can never touch the money.

In addition, the contribution must otherwise qualify as a tax-deductible charitable gift. For instance, if the deduction would be would have been disallowed due to inadequate substantiation or reduced because you are receiving a taxable benefit in return, the tax exclusion doesn't apply to any part of the IRA distribution.

New law update: SECURE Act 2.0 improves the rules for QCDs in two ways.

1. The $$100,000 limit, which was set statutorily, will be indexed for inflation in the future. This change will take effect in 2024. Thus, the limit remains at $100,000 for 2023 ($200,000 for a married couple).

2. Beginning in 2023, you can include a one-time gift of up to $50,000 to a charitable remainder trust (CRT) or charitable gift annuity in your QCD. The CRT can be a charitable remainder annuity trust (CRAT) or a charitable remainder unitrust (CRUT).

With a CRAT, the payment must be a fixed amount at least equal to 5% of the initial value of the trust property. In contrast, a CRUT requires payment of a fixed percentage (not less than 5%) of trust assets. In either event, the trust term can't exceed 20 years.

Bottom line: IRA owners can now derive even more benefits through QCDs made to a favorite charity. Consider all the implications.

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