

IRA Qualified Charitable Distributions – FAQs

1. What is an IRA Qualified Charitable Distribution?

The IRS uses the term “qualified charitable distribution” (QCD) to describe an IRA charitable rollover. A qualified charitable distribution is money that individuals who are 70 ½ or older may direct from their traditional IRA to eligible charitable organizations. The provision has a cap of \$100,000 for charitable distributions from individual IRAs each year. Individuals may exclude the amount distributed directly to an eligible charity from their gross income on their federal income tax return.

2. Does a donor also receive a federal charitable deduction when they direct assets to a charity under this provision?

No. Under this provision, donors benefit by not having to recognize as federal taxable income the amount contributed directly from their IRA to a qualifying charity. However, because donors exclude this contribution from their gross income, they cannot take a charitable contribution deduction for the contribution; to do so would result in a double benefit for donors and that is explicitly prohibited.

According to the State of North Carolina Department of Revenue, the qualified charitable distribution must be recognized as an addition to income, but an individual can include the amount in their deduction for charitable contributions if the taxpayer elects to deduct itemized deductions on the North Carolina individual income tax return.

3. To which charities may donors make qualified distributions?

Most contributions to public charities, including The Winston-Salem Foundation, are considered qualified charitable contributions. Contributions may be made to establish or add to a permanent named endowed fund, allowing your generosity to support causes you care about far into the future. Distributions from IRA accounts to donor-advised funds, private foundations, or supporting organizations are not considered qualified charitable distributions.

4. Will an IRA distribution to a fund held at The Winston-Salem Foundation qualify?

Under current law, distributions to donor-advised funds, Charitable Remainder Trusts, and Charitable Lead Trusts do not qualify. Distributions can be used to establish or add to existing scholarship, field of interest, unrestricted, or organizational endowment funds, as well as some designated funds. Please contact a Philanthropic Services representative to confirm that your distribution will qualify.

5. Is a donor limited to one IRA charitable distribution per year, or can a donor request multiple transfers?

Donors aged 70-½ or older are limited to a maximum of \$100,000 in any one year as an IRA charitable distribution. However, there is no requirement that the entire amount be made in one transfer or that the entire amount go to a single qualified charitable organization. Donors can request multiple direct transfers from their IRA to qualified charities in a year, but only \$100,000 will be excluded from income as an IRA qualified charitable distribution.

6. What if donors want to contribute more than \$100,000 to a qualified charity from their IRA?

The law limits the amount that donors are able to exclude from their income to \$100,000 on their federal tax return. If donors wish to take funds from their IRA to contribute more than \$100,000 to charity, they cannot exclude the additional amount from their gross income on their federal return. Rather, they must follow the general rules pertaining to percentage limitations and itemized contribution reductions.

7. Can donors contribute IRA assets to a donor-advised Fund?

Yes. However, since such distributions do not count as qualified distributions from IRAs under these special rules, donors will have to first recognize those distributions as income. They then must calculate their charitable deduction according to the general rules pertaining to percentage limitations and itemized contribution reductions.

8. Under what circumstances will the federal tax-free IRA Qualified Charitable Distribution most likely benefit donors?

Generally, this provision benefits donors who itemize deductions and whose charitable contributions are reduced by the percentage of income limitation. Traditionally, when individuals receive a distribution from their IRA and make a corresponding charitable contribution, they must count the distribution as income and then receive a charitable deduction for any amounts they transferred to charity. For higher income taxpayers, the charitable contribution deduction they receive may not totally offset the taxes they must pay for receiving the distribution from their IRA. In such cases, donors would potentially benefit more by using the charitable rollover provision when making a charitable donation.

Other donors who may benefit include individuals who do not usually itemize their deductions and individuals in states where the operation of state income tax law would offer greater benefits as a result of a qualified charitable distribution. Donors will need to work with their professional advisors to determine the effect of the rules on their specific tax situation. This provision will also likely benefit donors whose charitable contributions are reduced by the percentage of

income limitation, as well as those whose social security benefits are not subject to the maximum tax imposed on such benefits and who are using IRA distributions to fund their donations.

9. How do individuals make a qualified charitable distribution?

Individuals must instruct their IRA trustee to make the contribution directly to an eligible charitable organization. Regular distributions to IRA owners that are then used to fund charitable contributions are not treated the same as direct distributions to charitable organizations, and are not eligible for qualified charitable contribution treatment. Please consult your tax advisor if you are considering charitable distributions from your IRA, and have questions about how to do so.

10. How will charitable distributions impact the minimum required distributions from a taxpayer's IRA?

Shortly after individuals reach the age of 70½ they are generally required to receive distributions from their traditional IRA. For the purposes of minimum required distributions, the IRS treats distributions from an IRA the same, whether individuals use the distribution for personal purposes or direct the distribution to a charity.

11. What if I do not take my required minimum distribution?

If you do not take any distributions or if the distributions are not large enough, you may have to pay a 50% excise tax on the amount not distributed as required.

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