WEALTH SOLUTIONS GROUP

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Qualified Charitable Distributions

Direct gifts from IRAs can provide additional tax benefits

Charitable gifts made directly from an IRA can provide added tax benefits for many taxpayers, but they aren't right for everyone.

Wealth Planning Department
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The Qualified Charitable Distribution (QCD) rules allow IRA owners to make direct transfers from their IRA to a qualified charity without including the distribution in taxable income. Eligible individuals may contribute up to $111,000 in 2026 directly from their IRA to charity. These transfers can also be applied toward satisfying their Required Minimum Distribution (RMD) for the year. Historically capped at $100,000, the QCD limit is now indexed for inflation under the SECURE Act 2.0, increasing from $108,000 in 2025 to $111,000 in 2026.

TAX RULES

In order to be considered a Qualified Charitable Distribution, the following conditions must be met:

- The IRA account holder must be age 70½ or older as of the date of the distribution. A QCD can also be made from a beneficiary IRA, as long as the beneficiary is over age 70½ at the time of the gift. The age of the original IRA owner is irrelevant.
- The distribution must be made to a public charity to qualify as a QCD. Transfers directed to private foundations, donor-advised funds, and supporting organizations generally do *not* meet QCD requirements. Beginning in 2023, SECURE Act 2.0 expanded the QCD rules to allow IRA owners to make a one-time QCD to fund a Charitable Remainder Trust (CRT) or Charitable Gift Annuity (CGA). This special election is subject to a $55,000 lifetime limit in 2026, indexed annually for inflation. The CRT or CGA must also meet a variety of other requirements.
- Direct transfers to charity can only come from a traditional or Roth IRA. A QCD is not allowed from an employer plan, such as a 401(k), nor is it allowed from an ongoing SEP or Simple IRA.
- The full payment to the charity must otherwise be an allowable charitable contribution.
- The distribution must be a direct transfer from the IRA trustee to the charity. The IRA owner cannot use the distribution as a way to reimburse themselves for gifts they previously made on their own.
- The exclusion from income only applies if the distribution would otherwise have been treated as taxable income (which leads to a planning opportunity – see below).

The amount distributed to the charity is not limited to the RMD amount for the year, nor does the distribution have to be used toward the RMD. IRA owners can withdraw – and keep – their RMD and still make additional distributions to charity from the account, up to the annual QCD limit.

TAX BENEFITS OF A QUALIFIED CHARITABLE DISTRIBUTION

Before the QCD rules were introduced, a taxpayer could take a taxable distribution from their IRA—thereby increasing their Adjusted Gross Income (AGI)—and then make an equivalent charitable gift and claim an itemized deduction to offset that income. Assuming the taxpayer itemized deductions, the two amounts would generally net to zero for federal income tax purposes.

With a QCD, however, the distribution is excluded from AGI entirely, and the taxpayer does not claim a charitable deduction. While this may appear to offer the same tax benefit as withdrawing the RMD and donating the cash, QCD treatment provides distinct tax advantages.

- Excluding the IRA distribution from income lowers the taxpayer's AGI, which provides several indirect tax benefits:
  - The amount of Social Security benefits that are taxable is driven in part by the recipient's AGI. A lower AGI could keep a larger amount of a retiree's Social Security benefits tax-free.
  - Medicare premiums are adjusted upwards for those with income over certain thresholds. The QCD can help avoid this increase.
  - Some deductible expenses are subject to AGI thresholds, meaning they're only deductible if they exceed a certain percentage of AGI. For example, keeping AGI lower via the QCD technique can make it easier to deduct medical expenses, which are only deductible to the extent they exceed 7.5% of AGI.
  - The 3.8% Medicare tax on investment income can also be avoided by using QCD. This tax is assessed on couples with Modified AGI over $250,000 (singles over $200,000), and the QCD technique can help keep a taxpayer below this threshold.
- In order to receive a tax benefit for a charitable contribution, a taxpayer must itemize their deductions instead of claiming the standard deduction. If the taxpayer doesn't have enough other expenses to justify itemizing, the tax benefit of the charitable contribution would be lost. By following the QCD rules, the tax benefit of the charitable gift is realized (by not having to report the RMD as income), regardless of whether or not the taxpayer itemizes their deductions.
- Charitable deductions are limited by a percentage of the taxpayer's AGI, and beginning in 2026, the One Big Beautiful Bill Act (OBBBA) adds a 0.5% AGI floor before *any* charitable gifts may be deducted. QCDs sidestep both limitations: the donor receives the full tax benefit of the charitable transfer without being constrained by AGI percentage limits or the new 0.5% floor.
- For taxpayers whose IRA contains both pre-tax and after-tax money, the QCD provides a unique opportunity. When a normal distribution is taken from an IRA, it is considered a pro rata distribution from the pre-tax and after-tax portions of the account. A QCD, however, is treated as coming from the pre-tax portion of the IRA first. As a result, a QCD can be an efficient way to use the pre-tax money while leaving the after-tax money in the IRA.
  - **Example:** A taxpayer has an IRA worth $50,000, of which $10,000 comes from after-tax contributions. If this taxpayer makes a QCD of $40,000 to a charity, it would all come from the pre-tax portion of the account. The remaining $10,000 would all be tax-free when withdrawn from the IRA, either as part of a regular withdrawal or a Roth conversion.

GIFTS OF APPRECIATED STOCK MAY STILL BE A BETTER ALTERNATIVE

While Qualified Charitable Distributions (QCDs) can provide a meaningful tax benefit—particularly for individuals who do not need their Required Minimum Distribution (RMD) for living expenses—there are many situations where donating appreciated securities instead can create a superior tax outcome.

When a taxpayer gives appreciated stock held in a taxable account, they generally receive a charitable deduction for the full fair market value of the shares while also permanently avoiding the capital gains tax that would have been owed upon sale. This "double benefit" can make the gift of appreciated securities more valuable than using the RMD to fund the charitable contribution. By contrast, if the taxpayer donates their RMD via a QCD and then sells appreciated stock to replace the cash flow, they may trigger capital gains taxes that could otherwise have been avoided.

As a result, taxpayers who rely on their RMD for spending needs—but also wish to make charitable gifts—are often better off keeping the RMD as income and donating appreciated stock instead. The higher the embedded gain in the stock, the stronger the tax advantage of gifting the appreciated security rather than using a QCD and selling the stock.

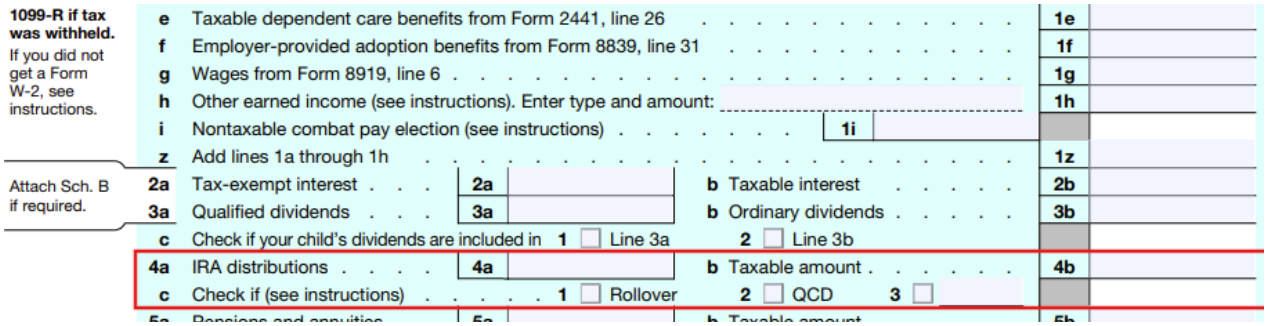
On the other hand, if the taxpayer intends to hold the stock until death (thereby receiving a step-up in basis), or if they have no need for their RMD at all, the QCD approach becomes more appealing. Similarly, individuals with smaller RMDs or those in lower tax brackets may see less incremental benefit from donating appreciated stock, making the QCD an efficient and straightforward strategy.

TAX REPORTING

Taxpayers who complete a QCD will still receive Form 1099-R reporting the full amount distributed from the IRA. Beginning with 2025 reporting, IRA custodians may choose to include Code Y in Box 7 to signal that all or part of the distribution qualifies as a QCD. Because use of Code Y is optional for 2025, taxpayers should not rely on its presence—or absence—when preparing their return.

Custodians that adopt Code Y will likely issue one Form 1099-R that reflects the QCD amount for that year, and then a second Form 1099-R for any non-QCD distributions.

For tax filing purposes, the full distribution is reported on line 4a of Form 1040. On line 4b, the taxpayer reports only the taxable amount, calculated as the total IRA distribution minus the QCD. The taxpayer must then check box 2 on line 4c to indicate that the difference between lines 4a and 4b is tax-free due to the QCD rules. If any additional portion of the distribution is tax-free for other reasons—such as a rollover or existing basis in the IRA—the taxpayer must also check the other applicable box on line 4c to reflect those exceptions. A screenshot has been included to show where these boxes appear on Form 1040.



1099-R if tax was withheld. If you did not get a Form W-2, see instructions.						
	e	Taxable dependent care benefits from Form 2441, line 26			1e	
	f	Employer-provided adoption benefits from Form 8839, line 31			1f	
	g	Wages from Form 8919, line 6			1g	
	h	Other earned income (see instructions). Enter type and amount:			1h	
	i	Nontaxable combat pay election (see instructions)	1i			
	z	Add lines 1a through 1h			1z	
Attach Sch. B if required.	2a	Tax-exempt interest	2a	b Taxable interest	2b	
	3a	Qualified dividends	3a	b Ordinary dividends	3b	
	c	Check if your child's dividends are included in	1 ☐ Line 3a	2 ☐ Line 3b		
	4a	IRA distributions	4a	b Taxable amount	4b	
	c	Check if (see instructions)	1 ☐ Rollover	2 ☐ QCD	3 ☐	

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