

FREQUENTLY ASKED QUESTIONS **IRA CHARITABLE ROLLOVER “QCD” DISTRIBUTIONS**

What is an IRA Charitable Rollover?

As of December 18, 2015, the IRA Charitable Rollover, or as the tax code calls it, qualified charitable distribution (QCD), was passed by Congress and signed into law by the President, allowing taxpayers 70½ or older to transfer up to \$108,000 annually from an IRA account directly to a qualified charity without recognizing the distribution as income while satisfying the taxpayer's required minimum distribution (RMD) obligation. If you reach the age of 73 years in 2024, you must take your RMD. However, there is no change to the age at which QCDs may be made. That's still 70½.

Can a QCD be made to any charity?

No. The charity must be a 501(c)(3) organization, eligible to receive tax-deductible contributions. Excluded are:

- Private foundations
- Supporting organizations: i.e., charities carrying out exempt purposes by supporting other exempt organizations, usually other public charities.
- Donor Advised Funds

Can a QCD be made from an employer-sponsored plan like the Federal Thrift Savings Plan (TSP), 401(k), or a 403(b)?

No. A QCD must be direct from an IRA. However, funds from a TSP, 401(k), or 403(b) can be rolled over to a traditional IRA then transferred directly to a charity, but they cannot be directly transferred from a TSP, 401(k), or 403(b).

What retirement plans are eligible for QCDs?

A traditional IRA, Rollover IRA, Inherited IRA, SEP (inactive plans only), and SIMPLE (inactive plans only). Under certain circumstances, a QCD may be made from a Roth IRA. Roth IRAs are not subject to RMDs during your lifetime, and distributions are generally tax-free. Consult a tax advisor to determine if making a QCD from a Roth is appropriate for your situation.

Does A QCD transfer qualify toward my minimum required distributions (RMDs)?

Yes. In 2024, once a donor reaches age 73, he or she is required to take required minimum distributions (RMDs) from retirement plans each year. A QCD satisfies the taxpayer's RMD obligation.

I'll be 70½ in a few months, can I give my RMD to charity now?

No. You have to wait until at least one day after you actually turn 70½ to make the transfer. Although Congress increased the age at which RMD must begin if you reached the age of 73 in 2024, Congress kept the age of 70½ to make a QCD.

Is an income tax deduction also available?

No. Since the distribution is not counted as income, there is no charitable deduction to the taxpayer.

Do I have to pay state or local taxes on my QCD IRA withdrawal?

You may—states and municipalities differ on whether you need to include the distribution in your taxable income. Check with your tax or financial advisor, or your taxing authority, to be sure. Hawai'i conforms to the federal treatment for a QCD from an IRA and therefore it is not subject to Hawai'i income tax.

Can my spouse also make a QCD even if we're married and file jointly?

Yes, every taxpayer can make a QCD for up to \$108,000 each year.

Can a QCD be used to fund a charitable remainder trust or charitable gift annuity?

Yes. The Secure Act 2.0 allows an individual 70½ or older to make a one-time election for a split interest entity like a charitable remainder trust or charitable gift annuity to be funded with a QCD (up to \$50,000 per individual).

Can I use a QCD to open a donor advised fund (DAF)?

No. The law specifically excludes a donor advised fund (DAF) as an eligible charitable option. Although a DAF is an ineligible charitable option, you can use a QCD to contribute to an ongoing initiative, the Catalyst Fund, a scholarship fund, or an advised designated fund at Hawai'i Community Foundation. We can help you understand the different ways these gifts benefit our community.

Can I withdraw the money from my IRA and then write a check to charity, or do I need to transfer the money directly?

The tax-free transfer won't count if you withdraw the money from the IRA first and then make a contribution to the charity. You may be able to take a charitable deduction for your contribution, but the IRA withdrawal will be included in your adjusted gross income.

For your gift to be a tax-free transfer, you need to transfer the money directly from the IRA to the charity. Ask your IRA administrator and the charity about making a direct transfer, or you can have the IRA administrator send a check from your account to the charity.

So, which is better: a tax-free transfer or a charitable deduction?

It depends. If you make a tax-free transfer from your IRA to charity, you cannot deduct that money as a charitable contribution. But the tax-free transfer could give you extra benefits. You don't need to itemize your deductions to get a tax benefit from the gift. Making the tax-free transfer also keeps the money out of your adjusted gross income. That could help you avoid the Medicare high-income surcharge, which boosts your Part B and Part D premiums if your AGI is more than \$97,000 if single or \$194,000 if married filing jointly. Keeping the money out of your AGI could also make less of your Social Security benefits taxable.

How do I know if an IRA Charitable Rollover (QCD) is right for me?

The IRA Charitable Rollover (QCD) may be right to you if you are at least age 70½ and:

- You do not need the additional income necessitated by your required minimum distribution (RMD); OR
- Your charitable gifts already equal 50% of your adjusted gross income, so you do not benefit from an income tax charitable deduction for additional gifts, OR
- You do not itemize deductions, OR
- You are subject to income phase-outs on your income tax deductions.

I'm ready to make a QCD. How do I get started?

Contact jlyman@hcf-hawaii.org for an IRA Charitable Rollover QCD Kit, which includes sample letters donors can send to IRA administrators and their favorite charity(ies).