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Abstract:

With only a couple of months left in this year, many taxpayers are looking for ways to lower their 2024 tax bills. If you're charitably inclined, own an IRA and are at least 70 ½, here's one option: Use IRA funds to donate directly to an IRS-approved charity. This article outlines the requirements, benefits and limitations of qualified charitable distributions (QCDs).

An IRA withdrawal strategy with tax-reducing power

As the year winds to a close in just a couple of months, your chance to lower your 2024 tax bill also winds down. Certain taxpayers may be able to make qualified charitable distributions (QCDs) to lower their taxable incomes and at the same time, fulfill a few other goals. To be eligible, you must be at least 70 ½ and own, or be the beneficiary of, an IRA. A QCD must be transferred directly from your custodian to an IRS-approved charity.

How a QCD works

If you're eligible, you can use the funds in your IRA to donate up to $100,000 (indexed annually for inflation) to an IRS-approved charity directly from your IRA. If you're married and file jointly and your spouse also meets the age requirement, you can donate up to $200,000. Such a donation may fulfill your annual required minimum distributions, if applicable and all rules are met.

A QCD can't be claimed as part of your charitable contribution deductions. But the amount of your QCD is removed from your taxable income, which may preserve your eligibility for other tax breaks. Also, as an eligible IRA owner, you can make a QCD whether or not you itemize deductions on your Schedule A. You may find that taking the standard deduction works better for your overall tax-reducing strategy.

Normally, distributions from a traditional IRA are taxable when received. To ensure your QCD becomes tax-free, it must be paid from an IRA custodian or trustee, directly to an IRS-approved charity. Don't take chances. Contact your trusted advisor to nail down the details.