

QCD – A Tax Break for Certain Seniors

The standard deduction increase under the Tax Cuts and Jobs Act resulted in many people no longer itemizing deductions on their tax returns, since a person's total deductions must exceed one's standard amount to itemize. While this may reduce the work of doing your tax return, it also caps the tax benefit from your charitable donations. "Tax-deductible to the full extent of the law" means your deduction for contributions is limited to \$300 in 2021 (\$600, on a joint return) if you use the standard deduction.

But certain senior citizens still have a tax break available for their charitable donations – it's called a Qualified Charitable Distribution (QCD). There are just a few basic rules:

- You must be at least age 70½ when you make the donation.
- The funds must come from a traditional Individual Retirement Account (IRA).
- You must have your IRA's trustee make the donation directly to a charity – you cannot receive the funds yourself and then contribute them.

For example, rather than donating weekly to your parish, you could combine the amounts you would have given into one or more large IRA distributions during the year. Check with your IRA trustee to obtain a distribution form with an option for funds to be sent to a third party. You should also get an acknowledgement letter from the charity, to keep with your tax records, just like when you claim an itemized deduction for a large charitable contribution.

Although the QCD amount is not taxed to you, it can still count as part of your IRA's Required Minimum Distribution (RMD) for the year if you are 72 or older. This might help you avoid going into a higher tax bracket because of your IRA's RMD.

Report your total IRA distributions for the year on your tax return, then subtract the QCD amount and list the taxable portion. Put "QCD" to the left of that figure to show the reason for the difference between the total distribution and the taxable amount.

The QCD doesn't affect your standard deduction – you still get the whole amount for your filing status. For 2021, that's \$27,800 for a married couple, both 65 or older; \$14,250 for a single person 65 or older. If you do itemize deductions, you don't include the QCD amount in your contributions, since it wasn't part of your taxable income. But it would lower your Adjusted Gross Income, which might get you a larger tax break for medical expenses, which are deductible only to the extent they exceed 7.5% of AGI.

The QCD subtraction is limited to \$100,000 per person annually, and only applies to an IRA distribution that would otherwise be taxable. A distribution from a Roth IRA, or the portion of a distribution attributable to nondeductible IRA contributions, does not count.

Details are in IRS Publication 590-B, "Distributions from Individual Retirement Accounts (IRAs)" available for download from the IRS website – www.irs.gov.