

Important information for charitable organizations regarding qualified charitable distributions (QCDs)

What is a qualified charitable distribution (QCD)?

Qualified charitable distributions (QCDs) are a unique tax strategy that allow individuals who are at least age 70½ and have an IRA, including inherited IRAs, to distribute up to \$100,000 per year, indexed for inflation, directly from their IRA to a 501(c)(3) nonprofit with no federal income tax consequences.

Potential QCD donors

Traditional IRA owners or IRA beneficiaries that have inherited a Traditional IRA and are at least 70½ years of age at the time of the distribution and are:

- Charitably inclined individuals
- Looking to fulfill their philanthropic objectives
- Making annual gifts but do not itemize their deductions on their tax return (the number of taxpayers not itemizing is predicted to increase as a result of the new tax laws)
- Not likely to need this additional income to maintain their lifestyle

QCD benefits to the IRA holder

The IRA distribution is made from before tax dollars, may satisfy the required minimum distribution (RMD), and is not included in the tax payer's adjusted gross income (AGI). Giving the distribution to a nonprofit will not trigger additional income tax liabilities and benefits the donor by:

- Not increasing their adjusted gross income
- Providing an option for making a significant gift or fulfill a pledge when they have already exhausted their limitation on annual charitable deductions
- Removing assets from their future taxable estate

QCD requirements and limitations

There are conditions that must be met in order for a donation from an IRA to qualify as a QCD. Remind donors that QCDs:

- Are limited to \$100,000.00 per individual, per year, indexed for inflation
- May satisfy all or part of their RMD or exceed it
- Must be paid directly from the IRA custodian/trustee to the nonprofit, the donor cannot have a distribution made payable to them and then use those funds to make a donation to the charity
- The donor may have the ability to write checks from their IRA and send directly to the charities
- Can be paid to certain split-interest entities that qualify under the new rule. This is a one-time distribution of up to \$50,000, indexed for inflation and is part of the QCD annual limit
- Are reduced by the amount of any deductible contribution the individual made to their Traditional IRA contribution
- Are not eligible as charitable deduction since they are not included in the donor's gross income

- From a Roth IRA may not qualify because these are IRA distributions that would otherwise be taxable,
- Generally, are not available from SEP or SIMPLE IRAs where contributions are still being made
- Not available from qualified retirement plans (QRP)

Opportunities for the charity

If you are a qualifying nonprofit, your organization may consider:

- Contacting your donors that are nearing age 70½ or older to see if they are aware of the QCD tax strategy
- Including information in the gift acknowledgment that notes the gift was received directly from the donor's IRA custodian/trustee and not directly from the donor

Reminder for your donors

Your donors should understand the following:

- The financial institution must make the check payable directly from the donor's IRA to your organization. Or a donor could write a check from their IRA if they have this option from their financial institution. They cannot write a check from their bank checking account and be considered a QCD.
- The donor may want to mail the check themselves, instead of the IRA custodian mailing it for them. This can help to ensure that you know who is responsible for the gift when sending a gift acknowledgment.
- They should keep a copy of the gift acknowledgment letter and the check for their tax records.
- RMDs are the first dollars out of the IRA so if the donor wants to satisfy their RMD with the QCD, they should do so before they take any other distribution from their IRA.

Talk to Wells Fargo Advisors

At Wells Fargo Advisors, we know that many older investors will appreciate this opportunity to make a difference in their communities. We welcome the opportunity to work with your charity and help solve your financial needs. Contact your financial advisor for help in taking advantage of QCDs.

Please note: This material has been prepared for informational purposes only and is not a solicitation or an offer to buy or sell any security or instrument or to participate in any trading strategy or distribution strategy. The accuracy and completeness of this information is not guaranteed and is subject to change. It is based on current tax information and legislation as of March 2023. Since each investor's situation is unique, you need to review your specific investment objectives, risk tolerance and liquidity needs with your financial professional(s) before an appropriate investment strategy or distribution strategy can be selected. Also, since Wells Fargo Advisors does not provide tax or legal advice, investors need to consult with their own tax and legal advisors before taking any action that may have tax or legal consequences.