Qualified charitable distributions

Using required minimum distributions as a tax benefit and to support giving strategies

Wealth Management

Like many other Americans, giving to charity annually may be part of your long-term strategy to satisfy personal and philanthropic goals.

In the past, the tax laws encouraged charitable giving through tax deduction for gifts to qualified charities. While the Tax Cuts and Jobs Act of 2017 (TCJA) incorporated some significant tax law changes for individuals and corporations, charitable giving can continue to offer tax benefits.

For example, taxpayers who elected to itemize their deductions in the past may now decide to take a higher standard deduction. In addition, the income tax deductions for state and local income taxes, sales tax, income and property taxes together may not exceed $10,000. These changes, combined with other changes to itemized deductions under the TCJA, have resulted in fewer itemizers and more taxpayers claiming the standard deduction according to Tax Foundation.

Changes to federal income tax standard deduction rates

Taxpayer status	Pre-TCJA tax years	Current tax year*
Individuals	$6,500	$15,000
Heads of households	$9,550	$22,500
Married, filing jointly	$13,000	$30,000

*Taxpayers over age 65 can take an additional $2,000 deduction ($1,600 for married couples, filing jointly).

Qualified charitable deductions

The Internal Revenue Code allows individuals over 70½ to receive a tax benefit for charitable giving using qualified charitable distributions (QCDs). This strategy helps minimize the tax burden by satisfying a portion or all of the RMD obligation once RMDs begin at age 73. It also allows families to set their philanthropic legacy in place.

Directing required distributions from an IRA to charity continues to offer tax benefits for many taxpayers.

Under the QCDs provision, individuals can request that a distribution from their IRA be sent directly to a qualified charity of their choice. Married spouses who are both age 70½ or older can each contribute up to $108,000 annually for a total of $216,000, but contributions must come from their own respective IRAs. This allows taxpayers to lower adjusted gross income and taxable income, resulting in a lower overall tax liability.

Up to **$108,000** annually from IRA

+

Up to **$108,000** annually from IRA

=

Total of **$216,000** to qualified charity

Hypothetical example

A hypothetical older couple in the 22% tax bracket donates $5,000 annually to charity and otherwise has consistent income and tax considerations from year to year. Through wealth planning with their financial advisor, if the couple has annual RMDs, they can direct their $5,000 donation directly to a qualified charity through a QCD and still elect the higher standard deduction. This results in a substantial reduction in their federal income tax liability.

No QCD 2024 tax year		Year tax due 2025
Adjusted gross income		$130,100
Itemized deductions		
Mortgage interest	$5,000	
State/local tax	$8,000	
Charity	$5,000	
		$18,000
Standard deduction		**$29,200**
Taxable income		$100,900
Federal tax payable		$12,304

With QCD 2024 tax year		Year tax due 2025
Adjusted gross income (less $5,000 QCD)		$125,100
Itemized deductions		
Mortgage interest	$5,000	
State/local tax	$8,000	
Charity	$0	
		$13,000
Standard deduction		**$29,200**
Taxable income		$95,900
Federal tax payable		$11,204

tax payable without QCD = $12,304 tax payable with QCD = $11,204 Savings = $1,100

Call to action

To discuss your philanthropic and tax planning goals, contact your RBC Wealth Management financial advisor today.

Section 307 of the SECURE 2.0 Act of 2022

Section 307 expands the IRA charitable distribution provision to allow for a one-time, $50,000 distribution to charities through charitable gift annuities, charitable remainder unitrusts and charitable remainder annuity trusts, effective for distributions made in taxable years beginning after 2022. For 2025, this limit is increased to $54,000. Section 307 also indexes for inflation the annual IRA charitable distribution limit of $100,000, effective for distributions made in taxable years after 2022. Note the limit for 2025 is $108,000.

Key considerations

Certain requirements need to be met in order for a distribution to be considered a qualified charitable distribution.

These include:

- The distribution must come from an IRA (traditional, inherited, Roth). The provision does not apply to active SEPs and SIMPLE IRAs or qualified plans.
- You must be age 70½ or older by the date of distribution.
- In the case of an IRA maintained for the benefit of a beneficiary after the death of an IRA owner, the beneficiary must be age 70½ or older by the date of distribution.
- The distribution must go directly from the IRA to the charity.
- The receiving charity can be any qualified nonprofit other than a donor-advised fund, a supporting organization or certain private foundations.
- The contribution must be one that would normally be 100% deductible as a charitable contribution.

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Brandon Chandler CFP®, CPFA®

Financial Advisor
Financial Advisor

(913) 451-3537

brandon.chandler@rbc.com

us.rbcwm.com/burkschandlerig

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