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5 Popular Questions on QCDs

In the wake of tax reform, more clients than ever are making use of the Qualified Charitable Distribution (QCD) strategy. This is a side effect of fewer people choosing to itemize and instead electing the larger standard deduction.

If a client does not itemize, she cannot claim a tax deduction for her charitable contribution. To receive a tax break for money given to charity, proactive advisors are increasingly turning to the QCD. With the number of QCDs rapidly rising, so are the inquiries into how this tax break works. Here are five popular QCD questions.

#1: Is the amount of the QCD limited to the amount of my RMD for the year?

No. The amount of your RMD has nothing to do with how much can be taken as a QCD. The annual QCD limit is \$100,000 for everyone who is eligible. It does not matter if their RMD is smaller.

Example: Joaquin, age 78, has an RMD of \$80,000 for 2019. Joaquin would like to do a \$100,000 QCD to his favorite charity. He can transfer \$100,000 to the charity tax-free as a QCD even though his RMD is only \$80,000. The transfer will satisfy his RMD, and the amount exceeding it still counts as a QCD.

#2: Can a client do a QCD when taking a missed RMD from a previous year?

Yes. If a client misses an RMD, there is a 50% penalty that applies.

However, the IRS is often willing to waive the penalty. To get a waiver, Form 5329 must be filed. The missed RMD must also be taken. That means it will be included in income for the year in which it is actually withdrawn. Adding an RMD from a previous tax year to another RMD due for the current year can create a serious tax hit. A QCD provides a way to soften the blow.

The tax code and regulations simply state that a QCD can satisfy an RMD. They do not specify that it can only satisfy the current year's RMD. Therefore, a client can do a QCD and offset both the RMD for the current year and the RMD for the missed year. The only limitation is that the total amount taken as a QCD cannot exceed the annual limit of \$100,000.

Example: Grace missed her 2018 RMD of \$20,000 due to a serious illness. Realizing her mistake in 2019, she asks the IRS to waive the 50% penalty. To get a waiver, Grace must take the missed 2018 RMD. However, she also has an RMD of \$22,000 due for 2019. Grace decides to do a 2019 QCD of \$42,000. This satisfies both of her 2018 and 2019 RMDs.

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