Wall Street Journal *Sept. 22, 2023*
By Laura Saunders

Ever since the tax overhaul of 2017, millions of Americans haven't gotten key tax breaks for giving to charity. But a growing group of seniors can still reap remarkable benefits from donations—if they put up with hassles.

First, some back story. One of the overhaul's biggest changes was to nearly double the standard deduction, which is the amount filers subtract from income if they don't list, or "itemize," deductions on Schedule A. Since then, far fewer taxpayers have itemized.

As a result, only about 12.2 million filers deducted gifts to charity on Schedule A for 2021 compared with nearly 40 million for 2017, according to the latest Internal Revenue Service data.

Yet charitably minded seniors have a way around this. They can donate funds from their traditional IRAs directly to charities using a strategy called a qualified charitable distribution, or QCD.

This technique has a double benefit: IRA donors who are at least 70 ½ can take the larger standard deduction, and they get charitable tax breaks as well.

The process isn't simple, however, and deters many givers. "Every year I urge my retirees to use QCDs, and every year they decide it's not worth the aggravation," says Adam Markowitz, a licensed tax preparer who has clients in the Florida retirement communities known as The Villages.

That's often a mistake. But given the potential complications, donors who plan to make these donations for 2023 should begin the process as soon as possible.

While QCDs aren't itemized deductions, the distribution of the IRA funds isn't taxable, as it would be normally. This means the payouts don't add to adjusted gross income, or AGI.

That matters because AGI is a key threshold: It's used to determine so-called Irmaa Medicare surcharges based on income, the 3.8% surtax on net investment income, and medical-expense deductions, among other things.

So QCD benefits can cascade by preventing increases in AGI. The result can be especially dramatic with Irmaa surcharges, where even a dollar more income can trigger higher payments.

For example, a married couple with AGI just above $246,000 for 2021 will owe about $4,000 in Irmaa charges for Medicare Part B for 2023. Say this couple had made small QCDs with IRA funds in 2021 that reduced their income below the $246,000 threshold. That could have saved them $2,400 this year. (Yes, it's hard to predict Irmaa thresholds, but some websites publish estimates.)

In addition, QCDs can count toward the IRA owner's annual required minimum distribution, or RMD, if there is one, up to the QCD limit of $100,000. For people who have oversaved in traditional IRAs, switching their donations to QCDs can be a tax-smart way to shrink the accounts.

So what's not to like? The complications. Unlike giving via credit card or donor-advised funds, QCDs often have many steps. Donors typically must track donations, and claiming them on tax returns is tricky.

Roberton Williams, a retired tax economist in Virginia who donates over $20,000 annually using QCDs, says he has had several issues. Recently he called a charity about a check sent directly from an IRA sponsor that was cashed but not acknowledged. "We didn't know how to get in touch with you," said a staffer, because the check gave his name but not his address.

The QCD process can be less daunting for IRA owners with financial advisers, because many shepherd clients through it—but donors still have work to do. Other IRA owners are on their own. For all, here's more information.

Know the basics

IRA owners must be at least 70 ½ to make QCDs. Each eligible owner can donate a total of $100,000 of IRA funds a year, so some couples can donate up to $200,000 annually.

The first dollars out of the IRA are considered the required minimum distribution, or RMD. (RMDs currently take effect at 73.) So if an IRA owner with a $25,000 RMD withdraws that amount before making $5,000 in qualified donations of IRA funds, the donations will be allowed but won't count as part of the RMD. To count, they would have to be part of the first $25,000 out of the IRA.

QCDs must be to 501(c)(3) charities, including many churches and schools, and they can't be to donor-advised funds. The funds must be transferred directly from the IRA to the charity, so the owner can't withdraw funds and later decide to send them.

Start early

Advisers recommend making QCDs in January if possible. In that way, the gifts can be part of the required withdrawal if there is one, and there's a long time to work out glitches.

Check your options

These vary by sponsor, but QCDs must be made by Dec. 31 for the donation to be part of that year's 1099-R report to the IRS. In some cases the check must clear by Dec. 31, while in others the charity can cash it after that.

At Fidelity, Vanguard, and Charles Schwab the donor can request QCDs either online or over the phone. Then the firms cut checks and mail them to the donor, who delivers them to the charity.

Some donors enjoy delivering the check themselves, say by putting it in the church collection plate.

Some sponsors will send the check directly to the charity instead, or process forms the customer mails in. Customers of Schwab and Fidelity have an additional option—an IRA checkbook they can use to write checks to charities.

Track the donation—and get the tax letter

Make sure the charity receives the check. As with other deductible donations, the giver of a QCD of $250 or more also needs a letter from the charity before filing the tax return. The letter must say that no goods or services were provided in return for the donation.

Get your tax break!

Often the biggest glitch arises because the 1099-R form that IRA sponsors send the donor and the IRS reporting IRA withdrawals doesn't have to break out the total for QCDs vs. taxable withdrawals. So it's easy for the giver to wind up paying tax on nontaxable donations.

Caveat: Be sure to track total QCDs and enter them properly on Lines 4a and 4b of the 1040 form.

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Laura Saunders. 2023. "A Tax Break Worth the Hassles." The Wall Street Journal, Sept. 22, 2023. https://www.wsj.com/personal-finance/taxes/qcd-ira-qualified-chartiable-distribution-dc3c9a96.