

# Insights

## QCD – A Tool for Nonprofits and Their Donors

**What an amazing world it would be for nonprofits if they could simultaneously increase donations while saving donors money. Thanks to a little known 2006 tax rule, this dream can be a reality.**

---

**Challenge:** A substantial subset of nonprofit donors who provide traditional cash donations to nonprofits may be costing themselves money. Nonprofits can help their donors and potentially increase donations received, by making sure the money given is done in the most tax-efficient way possible.

---

**Solution:** Qualified Charitable Distributions (QCDs), also known as IRA Charitable Rollover Gifts, were first established in 2006 and introduced with the dual goal to increase charitable giving and help older taxpayers meet their required minimum distributions (RMDs) without increasing their taxes.

An RMD is the amount of money the government requires a retired individual to withdraw from their tax-deferred retirement accounts once they reach retirement age.

Instead of taking their RMD and then making donations, a retiree can designate any part of the RMD directly to a charity, and in so doing, the retiree circumvents the RMD from being added to their earned income for taxes. Note: there are limits as to the total amount that qualify for QCDs and some additional rules, therefore, a donor should consult with their tax advisors.

When nonprofits give guidance to help donors be more tax efficient, they convey how they are thoughtful and prudent with donations received, also adding to the confidence of their donors. Data shows that nonprofits who proactively market QCDs receive more donations than those that do not.

*Because IRS rules can change, and sometimes frequently, Investors should always consult their tax advisor to ensure you are following the latest requirements.*

### Final Notes: A summary of QCD details

#### I) Eligibility:

1. **Age:** You must be at least 70 1/2 years old to make a QCD.
2. **Dollar Limit:** Currently you can donate up to \$108,000 annually to qualified charities. For married couples, each spouse can make a QCD up to the \$108,000 limit, for a total of \$216,000.
3. **RMD:** Requirements begin for individuals when they turn 73 years of age. At this point, the QCD can be used to satisfy the RMD requirements, up to the limit of #2. Note: A donor can make a QCD that exceeds their RMD; however, that extra amount cannot be applied to RMDs for future years.
4. **IRA:** The distribution must come from a traditional, rollover, or inherited IRA, or an inactive Simplified Employee Pension (SEP) plan, or inactive Savings Incentive Match Plan for Employees (SIMPLE) IRAs.

#### II) Qualified Charity:

- The recipient charity must be a 501(c)(3) organization that is eligible to receive tax-deductible contributions.
- QCDs *cannot* be made to donor-advised fund sponsors, private foundations and supporting organizations, though these are categorized as charities.

#### III) The QCD Process:

- **Request the distribution:** Donors contact the IRA custodian and request a QCD to the chosen charity. Make sure that the custodian includes the donor's name when the funds are sent.
- **Direct transfer:** The distribution must be a direct transfer from the donor's IRA to the charity. The funds *never* pass through the hands of the donor. ***You cannot receive the money first and then donate it.***
- **No benefit to the donor:** A donor cannot receive any benefit in return for the QCD. For example, a QCD cannot be used to purchase something in a charity auction or purchase tickets for a charity golf tournament.

#### IV) Tax Implications:

- **Tax-free distribution:** The QCD amount is excluded from the donor's taxable income.
- **No charitable deduction:** As a reminder, QCDs are tax-free, but are not deductible as charitable contributions on Schedule A.
- **Offsetting RMDs:** QCDs can be used to satisfy all or part of the donor's RMD if they are over the age of 73 and do not exceed the \$108,000 limit.
- **AGI impact:** An adjusted gross income (AGI)-based limit does not apply to QCDs, allowing donors to make larger gifts.

#### V) Reporting:

- **Tax Form:** Report the QCD on your tax return, usually on Form 1040.
- **Specify the QCD:** Indicate that it was a QCD and **not a regular distribution**.
- **Keep records:** Obtain a receipt from the charity and retain it for your records. NOTE: It is important to contact the charity who will be the benefactor of the gift, informing them of the forthcoming funds. It would be helpful to provide them with the exact dollar amount and where the funds are coming from. Remember the gift will *not* be coming directly from the donor, rather from the donors IRA custodian.

---

**Result:** Nonprofits that take appropriate measures to help inform their donors about the ability to employ a QCD as a powerful tool highly benefit both parties. Donors love to see their resources put to good use, and nonprofits are always seeking ways to do good.

*Harmony NonProfit is not a tax expert and is not giving tax advice. Harmony NonProfit is providing general information for educational purposes only. Please be sure to review details with your tax advisor.*

**August, 2025**