# Five Common Mistakes When Taking Qualified Charitable Distributions from Your IRA

**Lee Pelko**

In this article, we will hear from guest contributor Lita ("Lee") Pelko, CFP®, Lead Adviser at Rodgers & Associates Wealth Advisers in my hometown of Lancaster, PA. Rodgers & Associates is an independent wealth management firm founded by Rick Rodgers and specializing in all aspects of investment, tax, risk management, retirement, and estate planning for high-net-worth individuals. I have followed Rick Rodgers and his team for years, and I appreciate their wisdom and insight. I think you will, too.

Qualified Charitable Distributions (QCDs) can be a valuable way to give to charities you want to support while helping you fulfill your Required Minimum Distribution (RMD). This strategy can reduce taxes and help provide some flexibility in your overall tax planning. Below we have outlined five common mistakes to avoid when taking QCDs.

## 1. Not identifying the 70 ½ year age eligibility

When the required minimum distribution for IRA owners was 70 ½, many people assumed this was directly connected to the eligible age for qualified charitable distributions (QCDs). But when the SECURE Act was passed in 2019, it delayed the IRA required minimum distribution age to 72—but kept the eligible age for QCDs at 70 ½.

[Editor's note: The SECURE Act 2.0, passed December 29, 2022, further delayed RMDs to age 73 in 2023, and eventually to age 75 by 2033.]

To be clear: QCDs are not allowed until at least age 70 ½. If you are 70 and your birthday is on March 20, you would not be eligible for QCDs until September 20.

## 2. Not distributing money to a valid 501(c)(3) charity

QCDs must be distributed to a 501(c)(3) charity. There are many entities you might assume to be charitable organizations that are not—such as 501(c)(4) "social welfare" groups. To be sure a charity qualifies, verify directly with the charity or use websites such as www.guidestar.org, www.charitynavigator.org, or www.charitywatch.org.

## 3. Not receiving a confirmation letter from the charity that no goods or services were received

One of the qualifications for QCDs to be valid is that no goods or services can be received for your cash gift. The IRS requires the charity to mail you a confirmation letter stating this. Be sure to keep this letter with your tax documents to substantiate your gift. [Note: The SECURE Act 2.0 offers an exception to this rule by allowing for a once-in-a-lifetime transfer of up to $50,000 to fund a Charitable Gift Annuity.]

## 4. Not deducting the QCD amount from the reported 1099 R income

You might assume that your financial custodian will subtract QCD dollars distributed to charity from the taxable income on your 1099 R tax form. However, custodians are not required to do so: it is your responsibility to reduce your 1099 R taxable income by the dollars distributed to charity.

If you are having a professional prepare your taxes, they will have no way of knowing you gave money to a charitable organization from your IRA unless you notify them. Review your tax return to make sure the QCD amounts have lowered your taxable IRA distribution—and confirm that the taxable amount is correct. You should also verify the letters "QCD" appear next to the taxable amount on your 1040 tax form.

## 5. Not understanding the benefits of reducing taxable income

Making charitable gifts from your IRA instead of your checkbook can be an excellent tax management strategy. Doing so helps you to fulfill your required minimum distribution while reducing taxable income dollar for dollar. With lower taxable income, you may be able to keep more of your Social Security from being taxed, avoid increased Medicare premiums, and allow for possible Roth contributions and other tax credits that phase out when taxable income is too high.

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