ALL ABOUT RMDs & QCDs

What is the Difference between an RMD and a QCD?

A Required Minimum Distribution (RMD) is the legally mandated minimum amount you must withdraw from your IRA each year once you reach age 73, and this withdrawal is considered taxable income. A Qualified Charitable Distribution (QCD) is a direct transfer of funds from your IRA to a qualified charity, available to those age 70½ and older, which can count towards your RMD and be excluded from your taxable income, though it doesn't provide a tax deduction like a cash donation.

Required Minimum Distribution (RMD)

- **Purpose:** To ensure people draw down their retirement funds in their later years.
- **How it works:** You take a mandatory withdrawal from your IRA.
- **Taxability:** The amount withdrawn is added to your taxable income for the year.
- **Age:** You are required to start taking RMDs in the year you turn 73.
- **Consequence of Not Taking:** You could face a significant penalty from the IRS.

Qualified Charitable Distribution (QCD)

- **Purpose:** To allow IRA owners to support charities while reducing their tax liability.
- **How it works:** You instruct your IRA custodian to send a direct payment from your IRA to a qualified charity.
- **Tax Benefit:** The amount of the QCD is not included in your taxable income, and it can satisfy your RMD obligation.
- **Age:** You must be at least 70½ years old to make a QCD.
- **Deduction vs. Exclusion:** Unlike a cash donation that gives a tax deduction, a QCD excludes the amount from your taxable income, which can be more beneficial for those who don't itemize.

About QCDs

A Qualified Charitable Distribution (QCD) allows IRA owners, age 70½ or older, to transfer up to $108,000 annually to a qualified charity (501(c)(3)) tax-free, satisfying their Required Minimum Distribution (RMD) without increasing taxable income. To execute a QCD, the funds must be sent directly from the IRA trustee or custodian to the charity, not to the account owner.

Eligibility & Rules

- **Age Requirement:** You must be at least 70½ years old to make a QCD.
- **Eligible Account:** The funds must come from an Individual Retirement Arrangement (IRA).
- **Direct Transfer:** The distribution must go directly from the IRA custodian to the charity.
- **Qualified Charity:** The recipient must be an eligible 501(c)(3) organization.
- **No Benefits Received:** You cannot receive any goods or benefits in return for the contribution.
- **No Deductible Contributions:** Your QCD amount must be reduced by any deductible contributions you made to your IRA after age 70½.

Benefits of a QCD

- **Tax-Free:** The distribution is not added to your taxable income.
- **Satisfies RMDs:** A QCD can be used to fulfill your annual Required Minimum Distribution (RMD) without increasing your taxable income.
- **Reduces MAGI:** By lowering your Modified Adjusted Gross Income (MAGI), a QCD can help you avoid certain tax penalties or higher tax rates.

How to Make a QCD

- **Contact Your IRA Trustee:** Speak with your IRA provider to inform them of your intent to make a QCD.
- **Instruct the Trustee:** Request that the distribution be sent directly to your chosen charity.
- **Provide Charity Information:** You will need to give your IRA custodian the charity's legal name and address. You may also need their tax ID number.
- **Receive Documentation:** Your custodian will send the funds to the charity, and you should ensure the distribution is properly recorded as a QCD.
- Qualified charitable distributions allow eligible IRA owners up to $100,000 in tax-free gifts to charity | Internal Revenue Service. **In 2026, this amount will increase to $108,000.**

About RMDs

A Required Minimum Distribution (RMD) is the amount you must withdraw annually from your traditional IRA and most retirement plans starting in the year you turn 73. You calculate your RMD by dividing the prior year's account balance by your IRS life expectancy factor. You can delay taking the first RMD until April 1 of the following year, but subsequent distributions must be taken by December 31 of each year.

What It Is

- An RMD is a mandatory withdrawal from certain retirement accounts, primarily traditional IRAs and 401(k)s.
- The purpose is to ensure that individuals are paying taxes on their retirement savings during their lifetime.

Who Needs to Take Them

- Individuals who own traditional IRAs and certain retirement plans are required to take RMDs.
- The age at which RMDs begin is currently 73.

How to Calculate Your RMD

1. **Find Your Account Balance:** Determine your account's value as of December 31 of the previous year.
2. **Locate Your Life Expectancy Factor:** Find the correct factor from the IRS's Uniform Lifetime Table based on your age.
3. **Divide:** Divide your account balance by your life expectancy factor to find your RMD.

Key Deadlines

- **First RMD:** You can delay your first RMD until April 1 of the year following the year you turn 73.
- **Subsequent RMDs:** For all following years, you must take your RMD by December 31 of that year.

Important Note: If you have both a traditional IRA and a Roth IRA, only the traditional IRA requires RMDs. Roth IRAs do not require RMDs from the owner.

Please note: This document is offered for informational purposes only. For advice and more detailed information about your specific circumstances, please consult your financial advisor.