



A Tax Break to Consider: Qualified Charitable Distribution



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Required minimum distribution (RMDs)

When you turn 73,² the IRS requires that you take withdrawals from your traditional IRA:

- RMDs must be withdrawn whether you need the income or not.
- Withdrawals are taxable income in most cases.³
- If you don't need the income, taking your RMD could seem like you're paying taxes needlessly.

Donate to charity and get a tax break

Not all taxpayers receive a tax benefit for charitable contributions. In general, only taxpayers who itemize deductions do. Because of tax law changes, the standard deduction is higher than the itemized deduction for many people. The IRS reports that only about one out of ten taxpayers itemize deductions. For people over age 70 and a half, there is an alternative — a qualified charitable deduction (QCD), which doesn't require you to itemize.¹

What is it?

A QCD is a direct transfer of money from your IRA to one or more qualified charities. The amount distributed does not count as taxable income but does count toward any required minimum distribution (RMD) for your IRAs.

What are the benefits?

QCDs are also called IRA charitable rollovers because they allow individuals to partially or fully satisfy their IRA RMD via a direct transfer from an IRA to a charity. As a result, you can avoid paying income taxes on the amount you donate, if it's within IRS limits. You can also reduce the possibility of being pushed into a higher income tax bracket.

Donate a \$1,000 to a qualified charity

MARGINAL TAX RATE ⁴	10%	12%	22%	24%	32%	35%	37%
FEDERAL TAX SAVINGS WITH QCD	\$100	\$120	\$220	\$240	\$320	\$350	\$370
TAX SAVINGS WITH STANDARD DEDUCTION	0	0	0	0	0	0	0

If your itemized deductions are more than the standard deduction but the difference is less than your charitable contributions, you may want to ask your tax advisor if you're better off using a QCD and taking the standard deduction.

Other potential benefits of a QCD:

- State and local taxes
- Social Security taxation
- Medicare Part B Premium

¹ IRS.gov

² Under the "Setting Every Community Up for Retirement Enhancement Act" of 2019, as revised in 2022 ("the SECURE Act 2.0"), the required beginning age of RMDs is raised from age 72 to 73 for any person who attains age 72 after December 31, 2022. There is no change to RMDs for people who turned age 72 prior to January 1, 2023.

³ If you made non-deductible contributions to your IRA, a part of your withdrawal will not be taxable. Talk to your tax advisor for more details.

⁴ An RMD could be split between two tax brackets. For example, if your taxable income was \$3,000 above the minimum for the 22% tax bracket — \$3,000 would be taxed at 22% and \$7,000 would be taxed at 12%.

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.



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Consider bringing your financial and tax advisors to your next meeting to answer any questions.

The rules of QCDs

One important rule to note for QCDs is that funds must be transferred directly from the IRA to the charity. If a distribution is made to you, even if you donate the money to a charity, the distribution does not qualify as a QCD and is treated as taxable income.

Here are some other rules to keep in mind in order to realize the features and potential benefits of a QCD:

- The IRA holder must be 70 and a half or older at the time of the distribution.
- A QCD is limited to no more than \$105,000 per year.⁵
- The QCD counts towards your RMD.
- The distribution must be made to a qualifying charity (501(c)(3)).⁶

Spread the news

Some charities and religious organizations are concerned that tax law changes will decrease donations because fewer taxpayers may itemize deductions. Without a charitable deduction, some taxpayers will be less willing, or less able, to give. If you are involved with a non-profit organization that shares this concern, consider letting your members know about QCDs.

Resources

MFS Understanding RMDs
IRS Publication 590–B

Contact your financial advisor or investment professional for more information or visit [mfs.com](https://www.mfs.com).

⁵The QCD limit is indexed for inflation.

⁶Some charities such as donor-advised funds and private foundations are not considered qualified charities.

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