
# ED SLOTT'S IRA ADVISOR

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Tax & Estate Planning for Your Retirement Savings


## WHAT'S INSIDE?




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# IRS Introduces New Reporting for 2025 QCDs

The IRS has introduced a new code for custodial reporting of qualified charitable distributions (QCDs) on Form 1099-R. While this new code will benefit IRA owners by making it easier to ensure their QCDs are properly handled on their tax returns, a number of questions remain.

### QCD Basics

QCDs first became available in 2006, and they were made permanent in 2015. The strategy has become increasingly popular among IRA owners who are charitably inclined.

With a QCD, IRA owners or beneficiaries who are at least age 70½ can make a tax-free donation to charity directly from their IRA. Those who have not yet attained age 70½ cannot make QCDs — *even if they reach age 70½ by the end of the year.* An important benefit of a QCD is that it can be used to satisfy all or a portion of a required minimum distribution (RMD).

Regardless of what a person's RMD is, the 2025 annual limit is $108,000, and it is indexed for inflation. The annual limit applies per individual. This means that, for married couples filing jointly, each spouse can make QCDs of up to $108,000 from their own IRA, for a combined total of $216,000. A one-time QCD of $54,000 can go to a split-interest entity, such as a charitable remainder annuity trust, charitable remainder unitrust or a charitable gift annuity.

QCDs can be made from traditional IRAs, Roth IRAs and inactive SEP and SIMPLE IRAs. A SEP or SIMPLE IRA is considered "inactive" for 2025 if no employer contribution is made for the plan year ending in 2025. QCDs cannot be made from company plans.

QCDs can only be made through a direct transfer of IRA funds to charities that qualify under the tax code. Gifts made to donor-advised funds do not qualify. In addition, the client cannot receive anything of value from the charity in exchange for making a QCD, and that must be documented in writing.

Finally, only pre-tax IRA funds can be used for a QCD. (This is an exception to the pro-rata rule, which prohibits an IRA owner from withdrawing only pre-tax [or only after-tax] monies.) As a result, QCDs can only be made from the taxable portion of a Roth IRA. Due to the complexities here, a QCD from a Roth IRA is not recommended.

QCDs provide a valuable tax break since they exclude the distributed amount from taxable income. This tax break is even more advantageous following the Tax Cuts and Jobs Act of 2017 (TCJA).


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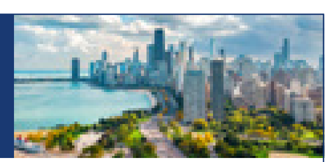

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