

## Tax-Smart Financial Strategies for High-Net-Worth Clients: Qualified Charitable Distributions (QCDs)

A Qualified Charitable Distribution (QCD) strategy can be an effective way to minimize income taxes for your high-net-worth clients as they age. QCDs allow individuals aged 70.5 and older to make qualified charitable donations directly from their IRA account without paying taxes on the withdrawal. At the same time, the QCD donation amount can be counted toward the client's annual Required Minimum Distributions (RMDs), effectively decreasing their Adjusted Gross Income (AGI) for that year. But a lower AGI isn't the only reason to consider QCDs; they may also decrease taxation on the client's social security benefits and help keep their Medicare premiums lower. Here are some specifics you need to know:

### QCD Tax Treatment

- Although a QCD involves a withdrawal of funds from an IRA, it is not counted as income, even when the withdrawal amount is used to satisfy annual RMD requirements.
- QCDs are reported as normal distributions on Form 1099-R and also reported on Form 1040 (as non-taxable). Using QCDs can reduce AGI by excluding the donated funds from taxable income, but they cannot be claimed as additional Schedule A (itemized) deductions.

### Requirements

- To utilize a QCD, the client must be at least 70.5 years of age by the date of the distribution (rather than reaching that age within the same calendar year the distribution is made).
- First Dollars Out Rule: In any year when an RMD is due, the IRS treats the first dollars withdrawn from an IRA as satisfying the RMD. If a taxable RMD or other distribution is taken **before** making the QCD, the QCD will not offset that RMD for tax purposes. To preserve the benefit, QCDs should be made before any other withdrawals in an RMD year.
- RMDs aren't required until a client reaches the age of 73 (increasing to age 75 in 2033), but those between the ages of 70.5 and 73 can still benefit from a QCD strategy. QCDs provide a dollar-for-dollar tax benefit, reducing the balance held in the IRA account, which in turn can decrease the amount of future RMD requirements and taxes owed.
- QCD funds must come from an IRA (traditional, rollover, or inherited) account. Simple and SEP IRAs may be eligible, but only if the accounts are no longer receiving employer contributions.
- QCDs may not be made from a 401(k) or 403(b) account. However, funds in those accounts may be eligible for an IRA rollover which can then accommodate a QCD. Note: Any after-tax contributions to a 401(k) or 403(b) account ideally should be rolled over to a Roth IRA (rather than traditional). After-tax contributions in a 401(k) or 403(b) can technically be rolled into a traditional IRA if basis is tracked, but rolling them into a Roth IRA avoids future basis complications that can impact QCD reporting.
- The QCD must be donated directly from an IRA account to a 501(c)(3)-designated public charity. Contributions made to private foundations or donor-advised funds are not eligible for QCD tax benefits.
- If the intended QCD funds are withdrawn by the account holder and subsequently donated to charity, the withdrawal will be counted as taxable income. The funds must be directly transferred from the IRA account to the qualified charity in order to receive the tax benefit of a QCD.

## Limits

- Since 2024, the QCD limit is indexed annually for inflation by the IRS.
- The maximum allowed QCD amount per year in 2025 is \$108,000 per individual, regardless of how many QCDs were utilized or how many IRA accounts the individual may have.
- Married individuals who each qualify may each contribute up to the individual max (in other words, \$216,000 per couple per year in 2025), provided the QCD funds come from each individual spouse's own IRA account.

## Additional Considerations

**"Anti-Abuse Rule."** Introduced as part of the SECURE Act, the anti-abuse rule aims to help prevent tax avoidance. Prior to this provision, taxpayers were allowed use of QCDs to decrease AGI and taxes owed while also taking tax deductions on IRA contributions, essentially providing a double tax benefit on the same income. Now, QCDs must be carefully tracked, as deductible contributions to an IRA made by those over age 70.5 will reduce the excludable amount of future QCDs. **Note:** deductible IRA contributions require earned income (wages or self-employment income). Very few individuals at RMD age will qualify, but for those who do, tracking is essential.

**Legacy QCDs.** Taxpayers are allowed to make a one-time, tax-free QCD of up to \$54,000 from their IRA in order to establish a Charitable Gift Annuity (CGA) or Charitable Remainder Trust (CRT), both of which can provide ongoing income to the IRA accountholder making the QCD. This one-time amount counts toward annual RMDs but may not be carried over for future tax benefits. While the amount of the QCD is excluded from taxable income, payments made from the CGA or CRT may still be taxed. Finally, the CGA or CRT must be funded exclusively by the QCD.

**State Laws.** While the IRS provides for the QCD income exclusion at the federal level, individual states may not. It's important to consider state law when determining if a QCD strategy makes sense.

## Final Thoughts

Implementing a QCD strategy as part of an overall tax mitigation plan can help your high-net-worth clients save more on taxes and leave a more meaningful legacy to their heirs. If you're interested in learning more about the use of QCDs, or would like to discuss a client who might benefit from this strategy, please contact us at [YourFuture@choreoadvisors.com](mailto:YourFuture@choreoadvisors.com).

Choreo, LLC is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Registration as an investment adviser does not imply a certain level of skill or training of the adviser or its representatives. This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, insurance, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. Information has been obtained from a variety of sources believed to be reliable though not independently verified. Choreo, LLC its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed. The sole purpose of this document is to inform, and it is not intended to be an offer or solicitation to purchase or sell any security, or investment or service. Investments mentioned in this document may not be suitable for investors. Before making any investment, each investor should carefully consider the risks associated with the investment and make a determination based on the investor's own particular circumstances, that the investment is consistent with the investor's investment objectives. ©2025 Choreo LLC. All Rights Reserved

## Contact Us

If we can be of any additional service to you or your clients, or if you would like more information about how Choreo advisors partner with tax professionals, please don't hesitate to reach out.



[Visit Our Website](#)



[Follow Us On LinkedIn](#)