

Feb 7, 2022, 11:41am EST | 197 views

New Rules May Limit Taxpayers' Max QCDs From IRAs

Julie Jason, JD, LLM

Contributor

[Retirement](#)

I manage wealth as a fiduciary & promote financial literacy

Some Taxpayers' Max QCDs Will Be Reduced

Recall that [QCDs \(qualified charitable distributions\)](#) are limited to [\\$100,000 per year](#)?

That \$100,000 maximum is not available to everyone. If an individual makes deductible contributions to his or her tax-deferred IRA (individual retirement account), the max is reduced.

How so? [The Setting Every Community Up for Retirement Enhancement \(SECURE\) Act](#) states that taxpayers who make a deductible IRA contribution after turning age 70 1/2 must adjust the \$100,000 QCD limit downward to account for the contribution. In addition, the SECURE Act lifts the age limit on making IRA contributions; previously, taxpayers age 70 1/2 and older were not permitted to contribute to an IRA.

This change is reported in the "What's New" section of the [draft 2021 IRS Publication 590-B](#), which states: "Qualified charitable distributions (QCDs) may be reduced.

Beginning tax years after December 31, 2019, your maximum annual exclusion for QCD may require an additional adjustment."

Deductible IRA Contributions & QCDs

Here is an example offered by Alexander Kotwal, a CPA and tax manager for national accounting and advisory firm Marcum LLP, along with an explanation.

“The maximum QCD exclusion is reduced by the excess of deductible IRA contributions in years in which the taxpayer was age 70 1/2 or older, over the total QCDs reported in all tax years preceding the current tax year,” explained Kotwal.

For example: A taxpayer made \$10,000 in deductible IRA contributions for years after 12/31/2019 in which he was 70 1/2 or older, as well as a total of \$2,000 in QCDs in prior tax years. The QCD limit would be \$92,000 instead of \$100,000.

The formula to arrive at that figure is provided in Appendix D of the draft 2021 Publication 590-B. However, let me share a word of caution.

Appendix D of Pub. 590-B

If you use the instructions in the draft of Appendix D, you’ll get the wrong result (following the formula in the draft, subtracting \$-8,000 from \$100,000 would result in \$108,000; as mentioned previously, the correct result is \$92,000).

When contacting an IRS spokesperson about the draft, the spokesperson confirmed that the QCD worksheet in Appendix D will be corrected when the final version of Publication 590-B is released for the 2021 tax year.

Call Your Tax Adviser

Be sure to discuss this with your tax adviser if you have made QCDs and deductible IRA contributions in the past, or if you are planning on doing either contribution in the future.

More on QCDs

QCDs are tax-free withdrawals from your IRA that go to charity. You have to be age 70 1/2 or older to qualify for a QCD (not 72), and you have to follow QCD rules.

The charity must be qualified. The [IRS Tax Exempt Organization Search Tool](#) will help you determine if it is. You need to arrange for a direct transfer from your IRA trustee to the charity. While you don't get a tax deduction for the QCD, the withdrawal does not trigger income taxes.