CHIEF INVESTMENT OFFICE
NATIONAL WEALTH STRATEGIES

Wealth Strategy Report

QCDs (Qualified Charitable Distributions): Lifetime Distributions from IRA to Charity

All data, projections and opinions are as of August 8, 2025 and subject to change.

If you are over the age of 70.5 and satisfy certain requirements, you can make direct tax-free lifetime transfers from your IRA to certain charitable organizations. A tax-free transfer from your IRA to charity is called a "qualified charitable distribution," or "QCD."[1] In this Wealth Strategy Report, we explain how a QCD reduces your taxable income and can satisfy your annual required minimum distribution from your IRA.

THE RULE AND ITS BENEFIT

Without the ability to do a QCD, if you wanted to use funds in your IRA to make a charitable gift, you would first have to withdraw the funds, include the withdrawn amount in income, and then contribute the funds to charity. The latter step might (or might not) be fully deductible, depending on the following factors: (i) whether you itemize deductions,[2] and (ii) whether your deductions, including the IRA distribution given to charity, exceed limitations on deductions which are based on your adjusted gross income (AGI).[3]

Under this tax-favored provision, you can exclude from income up to $108,000 (up from $105,000 in 2024) annually of an otherwise taxable IRA distribution that is transferred directly from your IRA (including an inherited IRA) to a "qualified" charity. Beginning in 2024, this limit has been adjusted annually for inflation. If you are married, your spouse can also exclude the same amount. This can include a transfer that fulfills a pledge. If you make a direct contribution from your IRA to charity, you will have $0 of income and $0 of charitable deduction, for a net of $0. That is mathematically the same as: (i) withdrawing and including the distribution in income; and (ii) receiving a full deduction for contributing the same amount to a charity (also resulting in a net of $0). If for any reason you would not receive a full deduction from a withdrawal/contribution, then this provision offers a way to achieve a better tax result.

Note that this tax-favored provision will not apply: (a) if you are under age 70½ on the date of withdrawal; (b) to the extent that you donate more than the annual limit of $108,000 for 2025 (up from $105,000 in 2024) from your IRA directly to a qualifying charity; or (c) if you donate to a non-qualifying charity.

1 QCDs were first authorized in 2006. At first, this provision was temporary, expiring but then being re-extended several times. In December of 2015, the ability to make QCDs was made permanent.

2 Tax legislation enacted on July 4, 2025, known as the "One Big Beautiful Bill," will allow taxpayers who do not itemize to take an above-the-line charitable deduction of up to $1,000 (or $2,000 for taxpayers who are married filing jointly) beginning in 2026.

3 In addition, prior to 2018, itemized deductions were subject to the phase-out provision known as the "Pease limitation," for taxpayers with AGI in excess of $313,800 for married filers filing jointly; $261,500 for single filers, $287,650 for heads of households, and $156,900 for married filers filing separately. Legislation passed in December 2017 suspended the Pease limitation through 2025. The One Big Beautiful Bill repealed the Pease limitation.

THE REQUIREMENTS

This rule has several requirements. If you fail to meet any of the following, the transfer from the IRA to charity will be taxed as if you had withdrawn the funds from your IRA and then contributed to charity.

- The funds must be transferred directly from your IRA to the qualified charity.
- The transfer must be to a "qualified charity," which is generally a public charity. You should check with your tax advisor to make sure your intended charity would indeed be "qualified" under this rule. The following are not "qualified" charities: (1) Private Foundations; (2) Donor Advised Funds; (3) Supporting Organizations; and (4) split-interest trusts, such as Charitable Remainder Trusts. (with the exception of a one-time gift of a reduced amount described below)
- The exclusion from income is capped at $108,000 per year, per person.
- You must be 70½ or older on the date of the transfer. It is not sufficient if you later turn 70½ during the year that the transfer is made. Rather, the transfer must occur after the date you turn 70½.
- This special rule does not apply to transfers from SIMPLE IRAs or SEP IRAs if a contribution has been made to the IRA during the year. However, if you are retired and no employer contributions were made during the year, then a transfer from a SIMPLE IRA or a SEP IRA would qualify under this special rule (assuming the other requirements are met).
- You cannot receive any financial benefit from the charity in return. The transfer to charity must otherwise be entirely deductible as a charitable contribution. Because of this, if you receive anything in return from the charity, you do not qualify under this rule. Thus, in most cases, gifts in return for a charitable gift annuity or gifts to a split interest trust, such as a charitable remainder trust or a charitable lead trust, would not be permissible unless they fall under the one-time $54,000 limit described below.
- You must substantiate your charitable gift. As with any cash gift to charity, you must receive a proper acknowledgement from the charity. If you do not, you will not qualify under this provision.

ADDITIONAL RULES

Coordination with Required Minimum Distributions (RMDs)

A distribution directly to a qualified charity qualifies as a tax-free distribution if you are 70½ or older on the date of the transfer (assuming the other requirements are met). You must begin taking distributions from your IRA (called "Required Minimum Distributions," or RMDs) in the year that you attain age 73 (75 for those born in 1960 or later). Assuming all other requirements are met, the distribution directly from your IRA to a qualifying charity will be counted towards fulfilling your RMD. However, you are not limited to your RMD. That is, you can make a direct contribution from your IRA to charity in an amount that exceeds your RMD. You can also make a direct contribution from your IRA to charity as a QCD even if you already fulfilled your RMD.

Nondeductible portion of IRA

If you made nondeductible contributions to your IRA, then generally any withdrawal would be partly taxable and partly non-taxable. Without more, it would not be of much benefit to transfer an otherwise non-taxable distribution directly from your IRA to charity. To address this, a charitable gift under this rule is deemed to first consist of the taxable amounts held in all of your IRAs (not just the IRA from which the distribution is made), rather than a proportionate share of both taxable and non-taxable amounts. This is a favorable rule for taxpayers.

Directly to Charity

The IRS realized that there is a great deal of personal satisfaction when you personally deliver a check to charity. Thus, the IRA custodian or trustee may provide the IRA owner with a check that is made payable to the charity (and to no one else). The IRA owner can deliver the check to the charity and it will still qualify as a QCD (assuming all other requirements are met). If the payee of the check is not the charity, then you would not qualify for this tax-favored rule.

Coordination with deductible contributions to IRA after age 70½

In 2019, new tax legislation was enacted, the Setting Every Community Up for Retirement Enhancement Act of 2019, known by its acronym "SECURE." Prior to enactment of SECURE, you could not contribute to a traditional IRA in the year you turned 70½ and thereafter. (There is no such limitation for contributions to Roth IRAs.) SECURE removed that limitation, effective for taxable years beginning after December 31, 2019. So, beginning in 2020, you can contribute to a traditional IRA regardless of your age, subject to the usual limitations applicable to IRA contributions.

The amount that can be excluded from income as a QCD is decreased by cumulative net deductions allowed because of this change allowing tax deductible contributions to an IRA after age 70½.

Example. For 3 years beginning with the year you turned 70½, you contributed $8,000 to your traditional IRA(s), a total contribution of $24,000. You were eligible to deduct the entire $24,000. In the next year you have $30,000 distributed directly from your traditional IRA(s) to a qualified charity as a QCD. The amount you can exclude from income under the QCD rules would be $30,000 minus $24,000, or $6,000. The remaining $24,000 would be included in income (assuming no basis in the IRA). The extent to which there would be a corresponding charitable income tax deduction would be a separate calculation. If you had not been eligible to deduct any of the $24,000 of IRA contributions, then your $30,000 QCD would be unaffected and you could exclude the entire $30,000 from income.

Qualified Charitable Distribution to Split Interest Entity:
The SECURE 2.0 Act, passed in 2022, expanded upon the existing QCD rules to allow for charitable distributions from IRAs to various types of charitable split-interest trusts, including Charitable Remainder Trusts (CRUTs and CRATs) and Charitable Gift Annuities beginning in 2023. However, there are several limitations and

restrictions to doing so. For example, a taxpayer may only elect to do this once, and the maximum dollar amount of a split-interest QCD is $54,000 for 2025 (up from $53,000 for 2024). For any of these split-interest entities, the income interest may only be held by the IRA owner and/or the owner's spouse, and all income paid to the lifetime beneficiary will be taxable as ordinary income.

WILL THIS TAX-FAVORED RULE BENEFIT YOU?

The rule is likely to benefit you in the following situations:

You do not itemize

If you do not itemize deductions, withdrawing from your IRA and then contributing to charity would trigger income without an offsetting deduction. (Beginning in 2026, if you do not itemize, you will be able to take an above-the-line charitable deduction of up to $1,000, or $2,000 if you are married and file jointly with your spouse.) In that case, transferring directly from your IRA to charity might produce a better tax result.

Your charitable contributions are capped

Even if you itemize deductions, charitable contributions are subject to limitations based on your AGI.[4] For example, contributions of cash to public charities can be deducted only up to 60% of your AGI, with any contributions in excess of that limitation being carried forward for up to five years. If you will exceed these limitations, then withdrawing from your IRA and then contributing to charity would trigger income without a fully offsetting deduction. In that case, transferring directly from your IRA to charity might produce a better tax result.

You reside in a state that does not allow itemized deductions

Several states have an income tax but do not allow a deduction for charitable contributions. If you reside in such a state, withdrawing from your IRA and contributing to charity will result in taxable income for state purposes, even though these two transactions fully offset for federal income tax purposes. In that case, transferring directly from your IRA to charity might produce a better tax result. You should consult with your state income tax advisor to determine if this tax-favored rule benefits you.

You would benefit from lower AGI

Some tax consequences depend on your level of AGI. For example, medical expenses are deductible only to the extent they exceed 7.5% of your AGI (the "7.5% threshold"). The lower your AGI, the lower this threshold. Even if you could withdraw from your IRA and receive a fully offsetting deduction for a charitable contribution, this would increase your AGI (which is calculated before subtracting your itemized deductions). If increasing your AGI would have a detrimental side effect, such as increasing your threshold, transferring directly from your IRA to charity might produce a better tax result.

[4] The One Big Beautiful Bill provides that beginning in 2026, you can only deduct the portion of your total charitable contributions that exceeds a "floor" of one-half of one percent (0.5%) of your AGI. In addition, beginning in 2026, if you are in the highest marginal income tax bracket of 37%, your overall itemized deductions—including any charitable deduction—will be reduced by up to 2/37ths.

As another example, certain investment income is subject to a 3.8% surtax. That surtax will apply to your investment income if your modified AGI is above a certain threshold. Withdrawing from your IRA and then contributing to charity would increase your modified AGI, possibly exposing you to this surtax. In that case, transferring directly from your IRA to charity might produce a better tax result because it would not increase your modified AGI.

IS GIFTING THE IRA THE BEST APPROACH?

Although this provision can allow you to use your IRA to make a tax efficient gift to charity, this may not always produce the most favorable result. It is possible that funding your charitable gift with appreciated long-term stock could produce a better result. Which option is better depends on several factors, such as: (1) the amount of appreciation in the stock; and (2) whether your financial goal is to maximize your own wealth or to maximize your family's inheritance. A charitable gift of appreciated stock is taxed differently than a charitable gift of an IRA in at least two respects.

- First, in the case of a gift of appreciated long-term stock, you can generally deduct the full value of the stock (subject to the AGI limitations) even though you have never been taxed on the appreciation. This is a benefit that is not available under the IRA distribution rule, and therefore a gift of appreciated stock might produce a better overall tax result.
- Second, at your death appreciated stock will receive a step-up in basis whereas an IRA does not. This might make the stock a better asset for your family to inherit for income tax purposes, in which case making a lifetime charitable gift of the IRA (preserving the stock for the step-up) might produce a better overall tax result.

You should consult with your tax advisor to make sure you choose the most advantageous way of making your charitable gift.

ROTH IRAS

The IRA distribution provision applies to traditional and Roth IRAs alike. However, normally a Roth is established with the goal of having withdrawals from the Roth be non-taxable by meeting certain requirements. If a withdrawal from a Roth is taxable, that usually is not a desired result and would indicate that you failed to meet a requirement.

If a withdrawal from your Roth would indeed be nontaxable, there is no tax benefit to having that amount transferred directly to a charity under this tax-favored rule. However, if for some reason your Roth is your desired source of funds for a charitable gift, and if withdrawing from the Roth would be taxable, then transferring directly from the Roth to charity would offer the same benefits as discussed above for a traditional IRA.

COORDINATING WITH YOUR IRA TRUSTEE

A typical IRA agreement might not address the possibility of a transfer to anyone other than the IRA owner. The statute does not obligate an IRA trustee to allow such transfers. Therefore, if you want to take advantage of this new provision, you will have to coordinate with your IRA trustee.

Important Disclosures

Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results.

Bank of America, Merrill, their affiliates, and advisors do not provide legal, tax, or accounting advice. Clients should consult their legal and/or tax advisors before making any financial decisions.

This material does not take into account a client's particular investment objectives, financial situations or needs and is not intended as a recommendation, offer or solicitation for the purchase or sale of any security or investment strategy. Merrill offers a broad range of brokerage, investment advisory and other services. There are important differences between brokerage and investment advisory services, including the type of advice and assistance provided, the fees charged, and the rights and obligations of the parties. It is important to understand the differences, particularly when determining which service or services to select. For more information about these services and their differences, speak with your Merrill financial advisor.

This information should not be construed as investment advice and is subject to change. It is provided for informational purposes only and is not intended to be either a specific offer by Bank of America, Merrill or any affiliate to sell or provide, or a specific invitation for a consumer to apply for, any particular retail financial product or service that may be available.

The Chief Investment Office (CIO) provides thought leadership on wealth management, investment strategy and global markets; portfolio management solutions; due diligence; and solutions oversight and data analytics. CIO viewpoints are developed for Bank of America Private Bank, a division of Bank of America, N.A., ("Bank of America") and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S" or "Merrill"), a registered broker-dealer, registered investment adviser and a wholly owned subsidiary of Bank of America Corporation ("BofA Corp.").