

**QUALIFIED
CHARITABLE
DISTRIBUTIONS (QCDS):**
THE WISE STEWARDSHIP
OF TAX-ADVANTAGED
GIVING

THE **COMPASS** CHURCH

Qualified Charitable Distributions (QCDs) are a tax-efficient way to give to charities, often more advantageous than donating cash from ordinary income.

Tax-deferred traditional retirement plans (IRA, 401(k), 403(b), etc.) typically require you to pay taxes on distributions. However, since 2006, tax law has allowed you to avoid paying taxes on Required Minimum Distributions (RMDs) by making QCDs. This not only benefits your tax situation but also enhances your charitable giving.

TAX-ADVANTAGED BENEFITS OF A QCD

1. Exclusion from Income

- **Direct Transfer:** A QCD is a direct transfer of funds from your traditional IRA to a qualified charity, excluded from your taxable income. This lowers your adjusted gross income (AGI).
- **Lower AGI:** Reducing your AGI can lower the amount of Social Security benefits subject to tax, reduce Medicare premiums, and lessen the phase-out of other tax benefits.

2. Satisfying Required Minimum Distributions (RMDs)

- **RMD Fulfillment:** If you are 70.5 or older, a QCD can satisfy all or part of your RMD for the year, making the RMD tax-free as it is excluded from taxable income.

3. Charitable Contribution Without Itemizing

- **Standard Deduction:** With the increased standard deduction, fewer taxpayers itemize. A QCD allows you to make a charitable contribution directly from your IRA and get a tax benefit even without itemizing.

4. Avoidance of Charitable Deduction Limits

- **Deduction Limits:** Charitable deductions are generally limited to a percentage of your AGI. A QCD is not subject to these limits, enabling larger donations without worrying about deduction caps.

5. Reduction of IRA Balance

- **Lower Future RMDs:** By reducing your IRA balance through QCDs, you can lower future RMD amounts, potentially reducing future taxable income.

Consult your tax advisor to understand the impact on your specific situation.

REQUIRED MINIMUM DISTRIBUTION DETAILS

A required minimum distribution (RMD) is the amount of money that must be withdrawn from employer-sponsored retirement plans funded with pre-tax contributions, such as 401(k), 403(b), traditional IRA, SEP, or SIMPLE IRA. The age for RMDs increased to 73 as of January 1, 2023, and will rise to 75 starting January 1, 2033.

For more information, visit the IRS FAQ page on RMDs: [IRS RMD FAQs](#).

QUALIFIED CHARITABLE DISTRIBUTION AGE & GIFT LIMIT DETAILS

In 2024, individuals who are 70½ years or older can use a QCD to donate up to \$105,000 to qualified charities directly from an IRA. This limit is indexed for inflation annually.

Note that only IRAs are eligible for QCDs; 401(k)s, 403(b)s, etc., are not.

Some individuals find it wise and beneficial to roll over their retirement accounts into an IRA to take advantage of this provision.

Consult with a financial and tax professional before making this decision.

STEPS TO MAKING A QUALIFIED CHARITABLE DISTRIBUTION

1. **Choose a Charity:** Select a qualified 501(c)(3) organization (ex. The Compass Evangelical Free Church). Note that donor-advised funds and private foundations do not qualify for QCDs.
2. **Contact Your IRA Custodian:** Inform your IRA custodian of your wish to make a QCD. Provide the charity's details, including name, address, and donation amount or securities being transferred.
3. **Direct Transfer:** Ensure the distribution is made directly from your IRA to the charity. The funds should not pass through your hands to qualify as a QCD.
4. **Notify the Charity:** Notify the charity's finance department with the details of your QCD. A notification form is provided later in this document. Many IRA custodians make QCDs anonymously. Your notification will help your charity record your contribution accurately.

For more details, visit the IRS news release on QCDs: [IRS QCD Details](#)

IMPORTANT CONSIDERATIONS

1. **Direct Transfer Requirement:** For a distribution to qualify as a QCD, it must be a direct transfer from the IRA to the charity. If you withdraw the funds yourself and then donate them, the distribution will not qualify as a QCD and will be considered taxable income.
2. **Order of Transactions:** If you take a taxable distribution and then later make a QCD, the QCD will still qualify as long as the QCD meets all the requirements (direct transfer, age 70½ or older, qualified charity, etc.). However, the earlier taxable distribution will still be included in your taxable income.
3. **RMD Considerations:** If you have already taken your full Required Minimum Distribution (RMD) for the year through a taxable distribution, any subsequent QCDs cannot be used to meet the RMD for that year. Conversely, if the QCD is made first and fulfills part or all of your RMD, you can then take additional taxable distributions if needed.
4. **Tax Implications:** While making a QCD excludes that amount from your taxable income, any prior taxable distribution remains part of your taxable income. This means you need to plan the timing of distributions carefully to maximize tax benefits.

In summary, taking a taxable distribution before making a QCD does not disqualify the QCD itself, but the earlier distribution will still be taxable. The QCD must still be a direct transfer to the charity to qualify. Careful planning of the order and timing of distributions can help optimize tax outcomes.

RECORDING A QCD ON THE 1040 TAX FORM

1. **Form 1099-R:** Your IRA custodian will issue a Form 1099-R showing all distributions from your IRA account in the previous calendar year.
2. **Line 4a:** Enter the total IRA distribution on line 4a of 1040 Tax Form.
3. **Line 4b:** Enter the taxable amount on line 4b. If the entire distribution is a QCD, write "0" on line 4b and enter "QCD" next to it. If only a portion is a QCD, subtract the QCD portion and record the taxable amount on line 4b.

Click [HERE](#) for a video description.

THE COMPASS CHURCH CONTACT DETAILS

- **Church Name:** The Compass Evangelical Free Church (DBA The Compass Church)
- **Email:** finance@thecompass.net
- **Mailing Address:** The Compass Church, Attn: Finance Department, 2244 W. 95th Street, Suite 300, Naperville, IL 60564
- **Phone:** (630) 983-3232
- **Tax ID:** 36-3256985

THE COMPASS CHURCH – BROKERAGE DETAILS FOR MARKETABLE SECURITIES

- **Account Name:** The Compass Evangelical Free Church (DBA The Compass Church)
- **Tax ID:** 36-3256985
- **Schwab Account Number:** 50719230
- **DTC Number:** 0164
- **Schwab Fax:** 877-242-2679
- **Schwab Address:** 1945 Northwestern Dr., El Paso, TX 79912

TO BE CLEAR

This document and all associated materials are intended to inspire and assist you with faithful stewardship information and instruction. This guide is not an attempt to render legal, accounting, or other professional services. Your personal financial situation is unique and fact-dependent. Before making any decisions or implementing any financial strategy, you should consider obtaining information and advice from wise professionals who are fully aware of your circumstances.

NOTIFICATION TO THE COMPASS CHURCH - FORM

Notify the Finance Department of The Compass Church via email or postal mail with the details of your IRA QCD.

The Compass Church
Attn: Finance Department
2244 W. 95th Street, Suite 300
Naperville, IL 60564
finance@thecompass.net

Dear Finance Department,

I am pleased to inform you that I have directed the custodian of my Individual Retirement Account (IRA) to make a Qualified Charitable Distribution (QCD) from my IRA to The Compass Church. The details are as follows:

IRA Plan Custodian Name: _____

Distribution Amount by check: \$_____

If stock, please watch for the following securities to be transferred by DTC (please specify # shares, company, and approx. value):

(Shares) (Company) (Approximate Value)

Please use my gift to strengthen the ministries of The Compass Church. It is my intention that this gift from my IRA comply with the QCD requirements of Section 408(d)(8) of the Internal Revenue Code and that it will be used to satisfy all or part of my annual Required Minimum Distribution (RMD). I understand that I will not be able to claim a charitable income tax deduction for my IRA gift.

If you have any questions concerning my gift or this letter, please let me know.

Sincerely,

Donor's Printed Name: _____

Signature: _____

Telephone: _____

Email: _____

Address: _____

City: _____ State: _____ ZIP: _____

***Scan or take a photo of this form and email it to finance@thecompass.net.**