

[Kara Morin](#) - Mon, 6/17/2024 - 09:00

A donor who inherits an IRA also inherits the ability to use the IRA to make qualified charitable distributions (QCDs), along with the limitations of this gift type.

To make a QCD contribution to charity, the beneficiary of the inherited IRA must be at least age 70 ½ at the time of the QCD. The age of the IRA's original owner is not relevant, nor is the inheritor's age at the time of the decedent's death. The age that matters is that of the donor at the time they make the gift.

For example, if the original owner was 65 at the time of their death, and the inheritor was 71 on that date, then the inheritor can make a QCD from their inherited IRA Immediately. But if the original owner was 71 at the time of their death, and the inheritor was age 65, the inheritor will need to wait until they are age 70 ½ or older to make a QCD.

As with all QCDs, the distribution must go directly from the custodian to the charity. In 2024, the outright QCD limit is \$105,000 annually (this amount is indexed for inflation). Under this annually renewing gift opportunity, there is also an in-one-tax-year-only opportunity to establish one or more immediate CGAs, provided that their aggregate amount is equal to or less than \$53,000 (this amount is also indexed for inflation).

Following these guidelines, a donor could make a \$53,000 QCD to establish a CGA with one charity and still make a \$52,000 QCD to fund an outright gift to the same charity or to another charity. Similarly, they could decide to use QCDs to establish three \$10,000 CGAs at three different charities and then make an outright QCD for \$75,000 to a fourth, all in the same tax year.

There is no deduction for making a QCD. Rather, the tax benefit comes from avoiding taxation on the withdrawal. A QCD from an inherited IRA is therefore most advantageous to the donor when it can be applied to a required minimum distribution (RMD), but this plays out differently if the IRA is inherited from someone other than a spouse.

A donor who inherited an IRA from a spouse can name themselves to be the owner, elect to be treated as a beneficiary of the IRA, or roll the IRA into their own IRA. If

they become the owner, or roll the IRA into their own IRA, their own age typically guides the timing of their RMD. This means that conversations about making a QCD from an inherited IRA will be most beneficial to the donor and the charity when the surviving spouse is 73 or older and, therefore, has an RMD to fulfill each year.

A donor who inherits an IRA from someone other than their spouse cannot be considered the IRA's owner, nor can they roll the IRA into their own IRA. Rather, the donor is deemed an IRA beneficiary, and they may be subject to two forms of mandatory withdrawals from their inherited IRA: an RMD and additional withdrawals under the 10-year rule. The double impact of these withdrawals may make a QCD particularly attractive.

If the deceased IRA owner was already subject to an RMD at the time of their death, then the inheritor is also subject to an RMD. The calculation of the RMD will be based on which life expectancy is longer, the inheritor's or the deceased's.

The second mandatory withdrawal is dictated by the ten-year rule, which requires the IRA be emptied by the inheritor within 10 years. (There are a few exceptions: non-spouse inheritors who are a child of the account holder and under age 21, disabled or chronically ill, or more than 10 years younger than the account holder are exempt from the ten-year rule.) This is sometimes incorrectly also referred to as an RMD by the inheritor, and it certainly feels to them like the ultimate RMD, as it produces total IRA liquidation within ten years. Because there is no specific amount that must be drawn down annually to satisfy the 10-year rule, the inheritor can make the withdrawals at times and in amounts of their choosing, provided the entire IRA is withdrawn within ten years. This small bit of flexibility also allows a donor to time their withdrawals to maximize the benefit of a QCD.

For instance, imagine the deceased was age 74 at the time of their death and was already drawing down their RMD. If they named their 65-year-old sibling as the inheritor, the sibling would be subject to both RMD and the ten-year rule. While they must begin withdrawing RMD in the year they inherit the IRA, they can use their life expectancy, not the deceased's, to determine the amount of the RMD. They can delay additional withdrawals under the ten-year rule, provided the IRA is completely liquidated at the end of the ten-year term. If they are charitably minded, they could start directing QCDs at age 70 ½ from the IRA to charity, treating the inherited IRA as the primary pool from which they make their charitable gifts (up to \$105,000 each year, indexed for inflation) and counting them against their RMD.

The year the sibling turns 75 would be the last year of the ten-year window. That would be an excellent time to use their in-one-tax-year-only opportunity to establish a QCD CGA, as that likely would be the year in the ten-year range when they would qualify for the highest annuity rate.

This plan, or something like it, could enable an inheritor to meet the ten-year window, while at the same time eliminating taxation on the required withdrawals. Donors with inherited IRAs should check in with their tax advisor to determine the timing and rules of withdrawals for their personal situation. Working with their advisor, donors can determine when an RMD will make a QCD both possible and tax advantageous.

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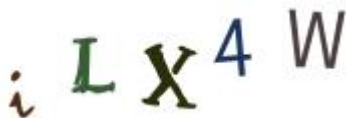
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