Craig Wruck - Wed, 12/10/2025 - 10:00

“You told me my QCD will count toward my RMD this year, so I went ahead and made a QCD contribution. But I just got a reminder from my custodian telling me I’ve only got a couple of weeks to take my RMD before year end. And they’re saying there’s a 25% penalty unless I take the RMD! What gives?” The donor’s voice isn’t exactly angry, but clearly anxious.

As you gingerly engage in what could become a fraught conversation, the picture becomes clearer when you learn that your donor has both an IRA and a significant 401(k) account. It seems your donor has fallen through a common trap door. Alas, it’s too late for this year but, fortunately, it’s easy to avoid this trap next year … if they act now.

It is true: a qualified charitable distribution (QCD) counts toward the donor’s required minimum distribution (RMD), and that’s a great way to avoid some of the income tax on the RMD. However, some donors miss the fact that RMDs apply to *all* qualified retirement plans. The confusion is compounded because the custodian of the qualified plan may not be required to notify the donor of the RMD, for example if the plan is a 403(b) or, under certain circumstances, if the donor is still employed. In addition, donors may not fully understand that withdrawals from any qualified plan are taxable income unless the withdrawal is a QCD or a tax-free rollover to a different qualified plan.

The trap arises because of the intersection of rules governing qualified retirement plans:

1. A separate RMD amount is calculated for each and every retirement account at the beginning of the tax year and must be withdrawn by December 31. And there is a hefty 25% penalty for failure to take the full RMD by year end.
2. The *first dollars distributed* from any retirement account during the year count toward that year’s RMD *for that account*.
3. QCDs can be made *only* from IRA accounts, not from 401(k)s, 403(b)s, or other qualified retirement plans, but money can be rolled over tax-free from a non-IRA account to an IRA from which a QCD can be made.

So, while it's accurate to say "your QCD will reduce the tax on your RMD," that's true *only for the IRA account from which the QCD is made*. And that's the trap that snared your hapless donor: there *is an RMD on their 401(k)* which they will have to take this year. But they cannot make a QCD from a 401(k) to offset that RMD. Even worse, their retirement plan custodian cannot make a tax-free rollover to an IRA until after this year's RMD has been withdrawn from the 401(k).

The lesson for donors is: plan now for next year's QCDs and RMDs by making tax-free rollovers to an IRA before the end of this year. Here are some tips and tools to help guide these conversations with donors.

The "Rollover Trap" – Why Timing Matters for Qualified Charitable Distributions

Generous donors have a grasp of the tax advantages of making their charitable contributions via a Qualified Charitable Distribution (QCD). Most donors age 73 and older are aware of Required Minimum Distributions (RMD). Donors have been told their QCD counts toward their RMD and can reduce the total income tax due. But few understand the "timing trap" that can spoil their tax strategy.

Here is a breakdown of how QCDs and RMDs interact with other retirement accounts.

1. The Benefit: The "Magic" of the QCD

For donors over age 70½, the QCD is arguably the most tax-efficient way to give.

- **Zero Tax:** When they send money directly from their IRA to a charity, it counts as a withdrawal, but it is excluded from their taxable income.
- **The RMD Bonus:** If the donor is old enough to have a **Required Minimum Distribution (RMD)**, the QCD counts toward satisfying the RMD. Instead of taking the RMD and paying taxes on it, they give it to a charity tax-free.

2. The Limitation: IRAs Only

Here is the first hurdle: **You cannot make a QCD from a 401(k), 403(b), or other qualified retirement plan.**

- QCDs are **exclusive to IRAs**.

- For convenience, many donors keep their money in their old work 401(k) or other non-IRA plan. To make a QCD, they must first move that money into an IRA, which can be accomplished with a tax-free rollover.

3. The Trap: The “First Dollars Out” Rule

This is where donors get stuck. The first dollars to leave any retirement account during the year count as the RMD from that account. The consequence is, if a donor waits until they have an RMD due **this year** before they try to move their money from a non-IRA account to an IRA, it is too late because the RMDs for both accounts must be paid out first.

The Rule: The *first dollars* to leave a retirement account will be applied toward the RMD.

The Restriction: You **cannot** roll over a non-IRA account’s RMD to an IRA. You must first withdraw the RMD for the year before rolling non-IRA assets into an IRA.

The Scenario:

- It is 2025. The donor has a 401(k) with a $20,000 RMD due.
- They want to roll the whole account into an IRA and make a QCD contribution to avoid taxes on that $20,000.
- **The Trap:** Before they can move the account to the IRA, they **must** take the $20,000 RMD in cash and pay taxes on it. They cannot roll it over.
- Result: They pay the taxes they were hoping to avoid.

4. The Solution: The “Year Before” Strategy

To avoid the trap, the donor needs to plan one year ahead.

- **The Fix:** The donor must complete the tax-free rollover from the 401(k) (or other non-IRA account) to the IRA **in the year prior** to when they want to use the QCD to offset their RMD.
- By moving the money to an IRA *before* January 1st of the target year, the account is established as an IRA on day one.
- Now, when the RMD calculation is done for the new year, the money is already in the right vessel. The donor can send the QCD directly to charity, satisfying the RMD completely tax-free.

Summary Talking Points for Donors

If you are speaking with a donor who holds assets in a 401(k) or other non-IRA account, and the donor wants to give tax-free, here are some ways to articulate the rules:

- "To give tax-free, the funds must come from an IRA, not your 401(k)."
- "If you move your 401(k) funds to an IRA **this year**, you generally have to take your taxable Required Minimum Distribution (RMD) first."
- "However, if you move the funds **now, after taking your RMD,** you will be set up perfectly to make tax-free gifts that count toward your RMD **starting next year**."

Additional Tools:

[TOOL 1: The Timeline – the "Year-Before" Strategy]

[TOOL 2: A Donor Checklist for Moving Retirement Assets]

Conclusion

For donors who unexpectedly find themselves caught in the QCD RMD trap this year, helping them understand how to avoid the trap for next year may ease their frustration. Explaining the RMD and QCD rules, referring to the tools, and walking through the checklist will hopefully provide useful guidance to avoid the QCD RMD trap in the future. And, as always, the donors should consult with their tax and financial advisors before making any decisions regarding their retirement assets.

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