

Let Your IRA Do The (Charitable) Work For You – Part I

Prior to 2006, if an individual with a large IRA wished to make a gift of a portion of his IRA to a charity, that individual had no choice but to withdraw the desired amount from his IRA and then make a contribution of the desired amount from the IRA funds received. The individual would report the withdrawn portion of the IRA as taxable income and would receive a corresponding charitable deduction that may or may not have fully offset the amount of taxable income included. However, with the enactment of the Pension Protection Act of 2006, all of that changed.

Among the several provisions of this law was one that allows an individual 70½ or older to transfer funds up to \$100,000 directly from an IRA account to a qualified charitable organization. While such a gift will not qualify for a charitable deduction (as the funds have never been taxed), it also will not increase an individual's taxable income.

This provision can be extremely helpful if you are 70½ or older and any of the following conditions apply:

- ❑ You are required to take a minimum distribution but do not need the additional income.
- ❑ You would like to make a gift from your IRA without having to report the income and take the offsetting charitable deduction.
- ❑ You are currently giving 50 percent of your adjusted gross income to charity.
- ❑ Your income level triggers the phase out of your charitable deduction.

Key provisions of the Pension Act include:

- The amount of the gift cannot exceed \$100,000 for each individual per year.
- The contribution must be made to a qualified public charity and cannot be to a gift annuity, a charitable remainder trust or a donor advised fund.
- Distributions must be made directly to the charity.
- The taxpayer must be 70½ at the time the charity receives the gift.
- Contributions can only come from an IRA or a Roth IRA and cannot come from a 401(k), Simple Plan, SEP, or 403(b).
- The contribution counts toward the donor's minimum distribution requirement.
- The taxpayer does not receive a charitable deduction; however, the amount withdrawn is not considered taxable income.
- The Charitable Rollover provision is effective until 2007, but could be extended by Congress.

In the next Article, we will show how naming a charity as the beneficiary of your IRA means more money for your other beneficiaries.

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