

Q & A: Tax-free rollovers to charity from your IRA

The Pension Protection Act, enacted in August 2006, included new rules that could have an impact on your charitable giving. Included among them was a provision permitting tax-free distributions (rollovers) from your IRA to charitable organizations. Because the opportunity has a limited life span, you'll want to start planning immediately. The following Q & A should be helpful.

1. How large can my charitable contribution be?

You can roll over as much as \$100,000 from your IRA to charity for 2007, and not have to report the amount as taxable income. The gifts must be outright—not, for example, something such as a gift of a lifetime income in property.

2. From what kind of IRAs can I make the rollover?

Your gifts must come from either a traditional IRA or a Roth IRA. They may not come from a company retirement plan. A two-step process should work: If you are entitled to roll over funds from a company retirement plan into an IRA, you should do that first. Then, providing that you meet all the requirements, you can make the rollover from the IRA to the charity.

3. For how long will tax-free rollovers to charity be available?

As it stands now, only through 2007.

4. Who can take advantage of a tax-free rollover?

Any IRA owner who is at least 70 1/2 years of age. This rule differs a bit from another age-related IRA rule. Minimum distributions from IRAs must begin at *any time during the year* in which the person turns 70 1/2. But for tax-free rollovers to charity, the rollover must be made *on or after reaching* age 70 1/2.

5. Can I make my gift to *any* charitable organization?

Not all charities are “qualified” for tax-free rollovers purposes. For instance, gifts from your IRA to donor-advised funds and many public, private and community foundations won't be eligible for the tax-free treatment.

6. Are there any other restrictions?

You must accept nothing in return for the rollover. Even if you receive a small benefit, say, a dinner, or a “souvenir” for your contribution, you risk exposing the full rollover amount to tax. And your rollover must be properly substantiated. The rules seem to indicate that you must receive a written acknowledgement that the charity received your donation and that no goods or services were provided in return.

7. If I take money from my IRA and give it to charity, I receive a tax deduction. So what’s the benefit of making the distributions directly from my IRA to charity?

One, for those who don’t itemize their deductions (some two-thirds of all taxpayers), the answer is simple: Not being taxed on this otherwise taxable income is the equivalent of an income tax deduction. Two, if your adjusted gross income (AGI) is sizeable, you face the possibility that your itemized deductions “phase out” so that you don’t get the full benefit of a charitable deduction. A rollover is immune to this phaseout rule. Three, certain specific deductions (medical and miscellaneous expenses and casualty losses, for example) as well as personal exemptions are tied to your AGI and may be phased out with a large AGI. The rollover amount does not increase your AGI as a withdrawal of funds from your IRA would. Finally, there is a cap on charitable gifts (50% of AGI). With a tax-free rollover, the cap doesn’t come into play.

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