

IRA Charitable Rollover Frequently Asked Questions

Why do donors want to give IRA assets to a charity?

After decades of deliberate saving, some of today's retirees have more money in their IRAs than they need for daily living expenses and long-term care. For larger estates, a good portion of IRA wealth goes to estate taxes and income taxes of non-spousal beneficiaries; heirs may receive less than 50 percent of IRA assets passed on to them through estates.

Instead, IRA holders may choose to leave their IRAs to qualified charitable organizations—choosing charity over taxes.

Which donors stand to benefit most from giving their IRAs to charity?

Because charitable IRA transfers are not included in taxable income and not available for itemized charitable deductions, these special rules may benefit many different types of individuals:

- ***Generous donors***—When making a major gift, some taxpayers may give more to charity than they can deduct that year. Donors cannot deduct more than 50 percent of their income for gifts of cash to public charities (30 percent, if giving to private foundations). Although amounts over 50 percent can be carried forward and deducted in future years, taxpayers will face an immediate tax bill and may lose some of the benefit of the deduction if they die before the gift has been fully deducted. Donors who consistently give above the limit will not be able to take advantage of the carry forward provisions.
- ***Non-itemizers***—Donors who regularly give a portion of their income to charity are not able to enjoy a tax break from the contribution because the standard deduction is still greater than the total of all itemized deductions. This may be especially true if state and local income taxes are low.
- ***Financially comfortable***—Individuals or couples who distribute the minimum from their IRA—and have other forms of income to pay living expenses—may find that transferring their minimum distributions to the community foundation helps fulfill personal charitable goals, tax-free.

In the past, how did the tax law treat charitable gifts made from IRAs?

Prior to 2006, IRA holders faced a disincentive for giving retirement assets to charity during their lifetimes because all withdrawals from traditional IRAs were subject to income tax. Thanks to the renewed tax provision, retirees will be able to give far more support without being penalized, doing so during their lifetimes and seeing their gifts benefit their communities.

In the past, when a donor of any age withdrew IRA funds to make a charitable gift, he or she was liable to pay income tax on the withdrawal, offset to varying degrees by a charitable deduction for the gift.

As a consequence of this unfavorable tax treatment, very few individuals donated IRA funds to charity during their lifetimes.

How has the tax law changed?

The current law permits individuals to transfer up to \$100,000 from individual retirement accounts directly to a qualifying charity without recognizing the assets transferred as income for federal tax purposes. A donor who has reached age 70½ is now allowed to exclude from his or her income tax calculations certain IRA withdrawals.

What are the advantages of this renewed law?

The tax benefits now available to American seniors will encourage new contributions from individuals who will no longer have to pay tax on a charitable gift of IRA funds. Now it is easier than ever for more people to enjoy the experience of making the tax-free *gift of a lifetime* using their excess retirement assets.

What if a donor contributes more than \$100,000 from an IRA?

Because the amount that the donor is able to exclude from income is limited to \$100,000 under the act, the remaining amount would be recognized as income. Within a married couple, each person can transfer \$100,000 from his or her account.

Donors may choose to contribute additional amounts to charity; however, the extent to which additional amounts can be deducted from their income will be determined following general rules of itemized deductions where the charitable percentage limitations and itemized deduction reduction are factors.

What is the itemized deduction reduction?

Higher income taxpayers must reduce their itemized deductions by the lesser of 3 percent of the amount by which their income exceeds a certain amount – \$250,000 for individuals, \$275,000 for heads of households and \$300,000 for married couples filing jointly.

These taxpayers can lose up to 80 percent of the value of their deductions because most itemized deductions have to be reduced by 3 percent of the amount by which the taxpayer's income exceeds a certain number, or 80 percent of the taxpayer's itemized deductions.

Example: A married couple filing jointly has \$500,000 in adjusted gross income (AGI) and because their AGI exceeds the \$305,050 threshold, the 3 percent reduction applies to this couple's itemized deductions.

AGI \$500,000

Excess of couple's AGI over \$305,500 = \$194,500

3% reduction x 3%

Reduction of itemized deductions \$5,835.00

The couple's itemized deductions will be reduced by the lesser of \$5,835 or 80% of the itemized deductions.

Does a donor also receive a charitable deduction when he or she transfers assets to a charity under this provision?

No. The benefit under this provision is that the individual does not realize the amount contributed directly from the IRA to a qualifying charity. Because a donor does not include the amount in his or her gross income, the individual may not take a charitable contribution deduction for the contribution. To do so would allow a donor to receive a double benefit from the contribution. For this reason, charitable contribution deductions are explicitly prohibited.

How will charitable distributions affect the minimum required distributions from a taxpayer's IRA?

Shortly after an individual reaches age 70½, he or she is generally required to receive distributions from his or her traditional IRA. Distributions from an IRA to a charity will receive the same treatment as distributions to the individual taxpayer for the purposes of minimum required distributions.

Are there any IRA transfers to a charitable organization that do not qualify for preferred tax treatment?

Yes. Transfers to Supporting Organizations and Donor Advised Funds do not qualify. In addition, split interest gifts, such as Charitable Annuities, Charitable Lead Trusts and Charitable Remainder Trusts, do not qualify. Further, an individual may not receive a benefit in return for an IRA distribution.

Because such transfers do not count as qualified distributions under these special rules, the donor will have to first recognize those distributions as income. The donor's charitable deduction must then be calculated as a regular itemized deduction.

How can an IRA gift be made?

IRAs are typically held by a financial service or trust company. These custodians will likely provide a form that could be used to transfer the IRA directly to charity, with no tax incurred.

The information provided here is based on analysis of recent legislation. Every effort has been made to ensure accuracy of the answers to these questions. However, due to the complexity of the tax law and the fact that many of these provisions introduce issues that are new to the Internal Revenue Code, this information may be subject to change. It is not a substitute for expert legal, tax or other professional counsel and we strongly encourage donors to work with their professional advisors to determine the impact of this legislation on their particular situations. This information may not be relied upon for the purposes of avoiding any penalties that may be imposed under the Internal Revenue Code.