IRA Charitable Rollover Information

Limited time charitable tax savings opportunity for donors

IRA Charitable Rollover

The new law provides that in each of the years 2008 and 2009, an owner of a traditional or Roth IRA, who is age 70½ or older at the time the gift is made, may instruct the trustee to distribute directly to a public charity up to $100,000 without the distribution being included in taxable income, and that the distribution will count toward the IRA owner's mandatory withdrawal amount. (No charitable deduction is allowed for the contribution. However, because you do not have to pay income tax on the IRA withdrawal, you receive the equivalent of a charitable deduction.)

To qualify for IRA rollover treatment, the donor must direct the IRA manager to transfer funds directly to a charity. A withdrawal followed by a contribution will still have to be reported as income - you cannot take ownership of the distribution and then donate it. The donor must be at least age 70½ and the organization must be a tax-exempt organization to which deductible contributions can be made. **The Death with Dignity National Center is a qualified 501(c)(3) charitable organization under this provision.** Donor advised funds and supporting organizations are not eligible. The gift must be outright; rollovers to a planned gift, such as a gift annuity or a charitable remainder trust, do not qualify. Neither do outright distributions to a charity from employer-sponsored retirement plans, such as Simple IRAs, 401(k)s, and 403(b)s. However, you can roll over money from these plans into a traditional IRA to take advantage of the law. Also note that IRA rollovers may be includable in a donor's income for state and local tax purposes and may not earn an offsetting charitable deduction, depending on state and local law.

Who benefits from this IRA Rollover

- **Donors who do not itemize their deductions.** Qualified charitable distributions from IRAs will eliminate the need for donors to claim an income tax charitable deduction, meaning non-itemizers will enjoy the equivalent of a charitable deduction.
- **Donors who would be unable to deduct the entire contribution because of the 50-percent-of-AGI limitation**. Donors who have maximized their ability to claim income tax deductions due to the 50-percent-of-AGI limitation will find they can give more because rollover distributions operate independently of the percentage limitation rules and, therefore, do not affect other gifts to which the limitations apply.
- **Donors with a high income who might lose some of their exemptions, credits, and itemized deductions if normal income is inflated by a withdrawal**. For higher income earners, the impact of receiving additional income on the deductibility of medical expenses, miscellaneous itemized deductions (subject to the two-percent-of-AGI limitation), the phase-out of itemized deductions and the child tax credit, and application of the alternative minimum tax can often result in a net income tax cost of making a charitable gift.
- **Donors with more modest incomes**. Adding IRA withdrawals to their other income might cause more of their Social Security payments to be taxable. Making a charitable IRA rollover, as opposed to an IRA withdrawal, which would be considered income, may reduce your Social Security payments that are subject to tax.
- **Donors who reside in a state where charitable contributions are not deductible on the state income tax return**. In states that do not allow itemized deductions, plan owners who made taxable withdrawals from their IRAs and then donated them under the old rules did not enjoy an offsetting deduction against state income tax for making a charitable gift. Because states generally follow federal income inclusion rules, IRA rollover distributions should be excluded for state income tax purposes under the new law. State laws vary, so consult with a tax advisor who knows your state's laws to find out more.