New Charitable IRA Rollover!

The new “Pension Protection Act of 2006” permits individuals age 70 ½ and older to make cash gifts up to $100,000 a year from a traditional or Roth IRA to qualified charities such as the Smithsonian Institution. These gifts are tax free – no personal income is realized and no income tax is paid on the withdrawal. This is good news for people who want to make a charitable gift during their lifetime from their retirement assets, but have been discouraged from doing so because of potential tax penalties. It is also good news because traditional IRAs are among the most heavily taxed assets if they remain in your estate upon death – since they are subject to both estate tax ***and*** income tax. The new provision is effective for tax years 2006 and 2007 only, so you must act by December 31 to take full advantage of the new law. For more information, please contact:

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Additional details: Charitable IRA Rollover Provision

The Pension Protection Act of 2006 was signed by President Bush on August 17, 2006. This bill contains a two-year IRA Charitable Rollover provision that allows people age 70 ½ or older to exclude up to $100,000 from their gross income in tax years 2006 and 2007 for cash gifts made directly to a qualified charity.

The new provision permits distributions from traditional IRAs or Roth IRAs to qualified public charities and private operating foundations as described in IRC 170 (b)(1)(A). Whereas such distributions were previously income taxable, they are now excludable from gross income, eliminating the income tax penalty for these charitable gifts. The following limitations and restrictions apply:

- The individual for whose benefit the plan is maintained must have attained the age of 70 ½ or older at the time of gift.
- Qualified charitable distributions may not exceed $100,000 in the aggregate in any taxable year.
- The provision applies to tax years 2006 and 2007 only. Qualified distributions must be made by December 31 of each year.
- Qualified distributions must be made directly to the charity by the plan trustee. Contact your plan trustee for information on how to initiate a transfer.
- Qualified charitable distributions may be excluded from gross income for Federal Income tax purposes. However, no federal income tax deduction is available. Certain states may not exclude gift amounts withdrawn from an IRA for state income tax purposes.

- Only outright gifts are eligible. Distributions to charitable gift annuities, charitable remainder trusts, pooled income funds and other split-interest arrangements do not qualify for special tax treatment.
- Qualified contributions may be counted toward the Minimum Required Distribution (MRD) for a donor's IRA accounts.
- Qualified contributions are not subject to the deductibility ceiling (50% of AGI) or the 2% rule that requires that itemized deductions be reduced by 2% of AGI in excess of $150,500 for tax year 2006.
- Gifts from retirement accounts other than IRAs—such as 401k, 403b, and SEP accounts—are not eligible. Donors may be able to make qualified transfers of money from other accounts to their IRA, and then make a charitable gift from their IRA. Check with your tax adviser.
- Distributions to Supporting Organizations as described in IRC 503(a)(3) and Donor Advised Funds as described in IRC 4966(d)(2) are specifically excluded.
- Donors who do not itemize their Federal income tax returns may make qualified IRA gifts and exclude such gifts from their reportable income.

Who is most likely to benefit?

- Individuals who take mandatory minimum withdrawals, but don't need additional income.
- Individuals who wish to give more than the deductibility ceiling (50% of AGI).
- Individuals who are subject to the 2% rule that reduces their itemized deductions.
- Individuals whose major assets reside in their IRAs and who wish to make a charitable gift during their lifetime.
- Individuals who intend to leave the balance of their IRA to charity at death anyway.

PLEASE NOTE: This summary was prepared as an educational service and is not intended as legal or tax advice. Please consult with your own legal or tax advisor before making any decision based on this information.