

The IRA Charitable Rollover

A Renewed Incentive for Charitable Giving

The IRA Charitable Rollover is once again an option for our donors. Congress first made the IRA Charitable Rollover available in 2006, but only for a limited time. Fortunately, Congress renewed this option for 2010 and 2011.

Now a donor can order a distribution from an IRA directly to our organization. And the money directed to charity is excluded from the donor's income for federal tax purposes, and counts towards the donor's required minimum distribution for that year.

Our donors really appreciate the simplicity of the IRA Charitable Rollover. You can take advantage of the IRA Charitable Rollover today. Here are some details about this unique way of giving.

The Basic Idea

To understand the possible advantages the IRA Charitable Rollover affords, here are the basics:

- An Individual Retirement Account (IRA) is a tax-deferred retirement account.
- One contributes to the account and, for a traditional IRA, takes an above-the-line income tax deduction.
- As IRA assets increase in value, the earnings are not taxed.
- However, once an amount is withdrawn from these accounts, the distribution is typically taxed as ordinary income (a marginal tax rate as high as 35% in 2010 and 2011).

Before the arrival of the IRA Charitable Rollover, the only way to make a lifetime charitable gift using IRA assets was to first withdraw an amount from the IRA, and then send the same amount to a qualified charity. As noted, the withdrawal would be taxed as ordinary income. The amount transferred to charity

could be deducted by the donor (subject to deduction limits). Hopefully, the charitable deduction would successfully offset the income tax due on the withdrawal from the IRA account.

Now, the IRA Charitable Rollover features one simple step:

The IRA owner instructs the IRA custodian to transfer a specific dollar amount directly to a charity.

It is that simple. The IRA owner does not include the IRA distribution as income. The charity immediately benefits from the gift — A simple transfer with an instant impact!

The Basic Criteria

Here are the highlights of the IRA Charitable Rollover:

- The IRA Charitable Rollover provision is in effect for 2010 and 2011.
- Donors must be 70½ or older on the date of the distribution in order to participate.
- Donors direct the distribution to a qualified charity as defined in IRC §170(b)(1)(A) (with some exceptions).
- The donor may exclude up to \$100,000 per year with the IRA qualified charitable distribution.
- The donor can count the amount of the distribution towards his or her Required Minimum Distribution for the IRA — that is the amount she is required by law to take from qualified retirement plan accounts every year.
- The donor who completes a charitable rollover before January 31, 2011 can choose to make the rollover effective in either 2010 or 2011.

- The donor will receive a 1099-R form from the IRA trustee to report the distribution. On the federal 1040 income tax return, the donor lists the qualified charitable distribution as non-taxable.

Some Limitations

The IRA Charitable Rollover offers important benefits to donors, but, there are some limitations. Here's a brief list to keep in mind:

- Donors may not take an income tax charitable deduction for the distribution.
- Donors may not direct the tax-free distribution to fund a gift annuity or a charitable remainder trust.
- Donors may not direct the tax-free distribution in lieu of entertainment opportunities provided by the charity.
- Donors may not direct the tax-free distribution to a donor advised fund or a Sec. 509(a)(3) supporting organization.
- Donors must direct the distribution from an IRA only (a traditional IRA or a Roth IRA, though there may be less incentive to use a Roth IRA since distributions are generally tax-free). Distributions made from a 401(k), 403(b), or 457 plan, etc. do not qualify.
- Donors must direct a distribution that would otherwise be considered as taxable.

The Next Step

After consulting your financial and tax advisors to see whether the IRA Charitable Rollover is right for you, the next step is to contact the trustee of your IRA account and request the qualified charitable distribution. Most IRA custodians are aware of the change in the tax law and may have a written form for you to complete the transfer. Otherwise, you must send a written request to your trustee.

Also, be sure to contact us to let us know to expect a distribution from your IRA account. Because the qualified charitable distribution requires substantiation just like a normal gift, we want to send you an acknowledgment that we have received the noted funds.

To learn more about how the IRA Charitable Rollover fits into your plans, talk to your financial and tax advisors, or contact our office. We are glad to provide more information or answer any questions regarding this exciting development in charitable giving.

