EXAMPLE D:

George, age 60, has accumulated assets that he believes are more than sufficient to provide for his retirement. He has provided for his family in other ways and has pondered making a significant gift to his favorite charity using a portion of his IRA. He is happy to learn from his tax advisor that he may donate the amount he wishes on a virtually tax-free basis.

If you are over the age of 59 1/2, funds may not be distributed directly to charity but can be withdrawn from IRAs and other retirement accounts and then donated to charity without payment of a 10% penalty for early withdrawal.

While amounts withdrawn and donated in this way are reported as part of your income, they can then be deductible as charitable contributions, which generally results in an offset for federal income tax purposes. Check with your tax advisors for more details.

ADDITIONAL INFORMATION FOR ALL:

To qualify, charitable gifts must be made from a traditional or Roth Individual Retirement Account. Funds accumulated in a 401(k), 403(b) plan, or other types of retirement accounts do not qualify. However, you may check with your advisor to determine if you can transfer funds from another account to an IRA and then make your charitable gifts.

ACT NOW TO REAP BENEFITS

To enjoy the full benefit of this two-year opportunity, you must complete each year's transfer of funds to a qualified charity prior to December 31 of that year.

Check with your advisors about the best way to take advantage of these new giving opportunities. Always remember that circumstances are different for everyone, and that state as well as federal tax laws may affect your current and future financial and charitable plans.
New Law Brings New Opportunities

Congress took important steps in 2006 to strengthen America’s retirement system and encourage additional charitable giving. The Pension Protection Act of 2006 is still in effect for IRA gifts made prior to December 31, 2007 and may offer you new opportunities for tax-free charitable giving.

Of special note, the new law includes incentives for those 70 1/2 years of age and older who would like to make charitable gifts from potentially taxable Individual Retirement Account (IRA) funds.

ENHANCED TAX INCENTIVES

Our nation’s tax system has long encouraged charitable giving. Gifts to qualified charities, for example, may be deducted from income that could otherwise be subject to tax under federal law and the laws of many states.

Some taxpayers, however, may encounter limits on the amount of charitable gifts they can deduct and see other benefits phased out as their incomes increase.

Retired persons may also find that increases in income can cause more of their Social Security benefits to be taxed. In other cases, they may not be in a position to fully benefit from their charitable deductions.

The Pension Protection Act of 2006 (PPA) gives those at least 70-1/2 the opportunity to help overcome these and other challenges by making tax-free charitable gifts.

It may be wise this year and next to make gifts from IRA funds that would be subject to tax if withdrawn voluntarily or under mandatory withdrawal requirements.

EXAMPLE A:

Fred and Sue, ages 71 and 74, are retired with income from varied sources, including amounts they must withdraw from IRAs annually. They are also very philanthropic. Their IRA withdrawal amounts are fully reportable as part of their adjusted gross income (AGI), potentially causing numerous adverse tax consequences, even if used to make charitable gifts. This year, they have been advised to contact their IRA administrator and make charitable gifts directly from their IRA. Under PPA, Fred and Sue can now make those gifts directly from their IRA to charities without worrying about percentage limitations or other provisions that may have limited their tax benefits in the past.

For 2006 and 2007, Congress is allowing individuals holding traditional or Roth IRAs to make tax-free gifts directly to qualified charities. In order to qualify, gifts must be made directly to qualified charities and may not be given to donor advised funds, private foundations, or supporting organizations. Donors may make charitable distributions in any amount up to $100,000 per year. A married couple with separate IRAs could each give up to that amount.

EXAMPLE B:

Mary, a widow who is 81, has a taxable estate and worries that when she passes, the combination of income and estate taxes could consume the majority of an IRA funded through assets from her husband’s retirement plan. She decides to make a $100,000 tax-free distribution to charity in 2006 and 2007 to take full advantage of opportunities provided by the new PPA law. Accordingly, Mary gets to make special gifts while assuring that the IRA funds, which she personally does not need, will never be subject to income or estate taxes.

Remember assets held in IRAs are subject to income tax when withdrawn during your or your survivor’s lifetime. Additionally, these assets may be subject to estate taxes if left to anyone other than a spouse. This reason may make the assets in an IRA a good choice for funding charitable gifts. Of course, the provisions of PPA will affect individuals in a variety of ways.

EXAMPLE C:

Harold, age 72, lives comfortably on his Social Security, pension and savings. He also must take minimum distributions from his IRA yearly and is taxed on those funds. Additionally, these distributions result in more of his Social Security income being subject to tax. By directing some of his mandatory IRA withdrawals directly to a charity, Harold avoids reporting that amount as income, and doesn’t have to pay taxes on those funds. He also prevents any additional taxes on his Social Security benefits.

Individuals who are required to take unneeded IRA withdrawals, and others who have experienced limitations on tax benefits in the past, will find the PPA of particular interest.