

## How to Make a Sizable Charitable Donation From Your IRA - Tax Free

If you are over 70 1/2 years old, want to make a gift for a special charitable project, but your only liquid asset is your IRA, I have good news for you.

On August 17, 2006, the Pension Protection Act of 2006 (PPA 2006) was signed into law. This nearly 1,000 page piece of legislation marked the most sweeping changes to the pension arena in 30 years.

Let me give you two common examples that contain problems faced by seniors solved by PPA 2006-

Roger and Claire are retired. Roger spent his working career in the aerospace industry. He was more than well compensated and over the years accumulated a very large 401(k) plan. When he retired, he rolled his 401(k) into an IRA. Other than their home, the IRA is far and away their biggest asset.

For years, Roger and Claire have been supporters of the Humane Society. Their local chapter is building an entire new wing on to their kennels. Roger and Claire would love to make a significant donation-somewhere in the neighborhood of \$50,000 to \$100,000.

Bill and Diane both worked during their entire careers. Mary taught 6th grade for 40 years. Bill was a career military officer. After his retirement, he spent another 20 years working in the private sector. Like Roger, Bill has a large IRA.

When Bill turned 70 1/2, he was required to start taking the minimum required distributions each year from his IRA. But Bill and Diane don't need the income; their other retirement income sources are more than adequate. Nevertheless, Bill must take these RMDs and pay tax on them as income.

Bill and Diane have been active in their church all their married life. Their church just bought a new organ. The church did not pay cash for the organ; the majority of it was financed. Bill and Diane would like to pay off the organ.

Both Roger and Claire and Bill and Diane are warm-hearted people. But, prior to the passage of PPA 2006, their generosity could have been thwarted by several things-

1. In both cases, their principal liquid asset was an IRA. Neither couple had other assets from which to make a gift.
2. If the large sums were withdrawn from their IRAs, they would be subject to ordinary income tax.
3. If given to a charity, rules which limit the amount that could be deducted as a charitable contribution would have to be followed. This means that they may still have to pay tax on a portion of their IRA withdrawals.

But thanks to provisions in PPA 2006, Roger and Claire can make their gift to the Humane Society and Bill and Diane can pay off their church's new organ using money from their IRAs and not pay any tax on the withdrawals. But they have to follow the rules-

1. First, you must be at least 70 1/2.
2. You can give up to \$100,000.
3. This only applies to 2006 and 2007.
4. You can't withdraw the money from your IRA and then give it to your charitable cause. The transfer must be made directly from the custodian of the IRA to the charity.
5. These gifts, called IRA charitable rollovers, count towards your required minimum distribution for the year.
6. IRA charitable rollovers are not permitted for gifts to donor advised funds and supporting organizations. However, there are some exceptions that apply to funds held by community foundations: scholarship, field of interest, and designated funds qualify. So the first step is to contact your intended cause to see how they are classified and whether or not the law allows an IRA charitable rollover gift.

7. The gift must be a pure gift. In other words, there can't be any personal benefit strings attached like tickets to an event.

8. You don't have to report the IRA charitable rollover as income.

9. However, you don't get a charitable deduction for your gift. Sorry, you can't have your cake and eat it too.

This new law is a real winner. In these two examples, the Humane Society is able to build new kennels and a church pays off an organ they thought they were going to have to finance. The donors were able to make it happen despite the fact that the only real asset they had was an IRA.

I do not dispense tax advice. It is imperative that you consult with your tax advisor and the charity to make sure it is qualified and that the gift is made in the proper manner.

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#### About the Author

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