

## New Law Brings New Opportunities

**C**ongress has recently taken important steps to strengthen America's retirement system while also encouraging additional charitable giving. The Pension Protection Act of 2006 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.

### Additional Details

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. Opportunity House recommends that you always check with your advisors to

determine if you can transfer funds from another account to an IRA and then make charitable gifts.

### Benefits for Younger Persons

If you are over the age of 59 1/2, funds may not be distributed directly to charity but can be withdrawn from IRAs and other retirement accounts and then donated to charity without payment of a 10% penalty for early withdrawal. While amounts withdrawn and donated in this way are reported as part of your income, they can then be deductible as charitable contributions, which generally results in a "wash" for federal income tax purposes. Check with your advisors for more details.

*Unknown Author: Provided by the Sharpe Group*

**Note:** Opportunity House suggests you consult an appropriate, qualified professional prior to making any financial planning decisions. For any questions about programs at Opportunity House please call **Lorri Oziri at (610) 374-4696, ext. 226**

# Understanding IRA's and PPA

Individual Retirement Accounts (IRAs) have evolved considerably since their creation in the 1970s. Over the years, eligibility for individual retirement plans has expanded and changed to include variations on both the traditional IRA and the newer Roth IRA so that the IRA has now become an important part of the retirement portfolios of tens of millions of people and accounts for the ownership of trillions of dollars. The charitable IRA rollover provision could prove to be a significant source of funding for non profit organizations over the next 16 months.

## Short history of IRAs

The first provisions for IRAs were included in 1974 under the Employee Retirement Income Security Act of 1974 (ERISA) as a plan limited to workers who did not have access to employment-based plans. In the early 1980s, the IRA was extended to all workers under provisions of the Economic Recovery Tax Act of 1981 (ERTA). IRA contributions increased over 500% during this period.

However, after taking strides to make the IRA more accessible, Congress then restricted the tax deductibility of certain IRA contributions and created non-deductible IRAs as part of the Tax Reform Act of 1986. (Note that even though the contributions were not deductible, the funds could grow on a tax-deferred basis.)

The Taxpayer Relief Act of 1997 expanded the nondeductible IRA through the creation of the Roth IRA, under which after-tax dollars could grow on a tax-deferred basis and eventually be withdrawn tax free. Although the Roth IRA is derived from the traditional IRA, the tax treatment of withdrawals dictates that traditional IRA funds will continue to be the preferred choice for certain charitable gifts.

The 2001 Tax Act increased the contribution limits for IRAs. The Pension Protection Act of 2006 includes provisions to simplify and encourage the use of IRA assets for charitable purposes for persons over age 70 1/2.

## Value of retirement plans

The value of assets held in IRAs grew steadily from 1981 to 1999 before experiencing declines during the 2000-2002 time period as a result of investment market declines. Since then, account values have recovered and grown to record levels.

IRA asset values reached over \$2.5 trillion before declining to around \$2.4 trillion in 2001. IRA assets grew to some \$3.7 trillion at year-end 2005. An estimated 46.8 million households have some type of IRA, of which 37.6 million included traditional IRAs. Approximately 10% of this number is required to take distributions. In 2001, some 3.5 million individuals reported IRA withdrawals on their income tax returns.

Of the 3,448,457 individuals in 2001 reporting IRA withdrawals, 836,593 had an adjusted gross income (AGI) of under \$30,000. Another 895,335 persons had an AGI in the \$30,000 to \$49,999 range, and 1,114,172 fell into the \$50,000 to \$99,999 range. In the highest income group, 496,167 returns revealed an AGI in the \$100,000 to \$200,000 range. Some 106,189 returns fell in the over \$200,000 category.

Many believe that the nation's nonprofits will greatly benefit as a result of simplifying rules and encouraging charitably motivated persons to consider these assets as an additional source for funding outright gifts in retirement years.

*Author Unknown: The Sharpe Group*