



The Annette Painter Society

Summer 2007
Newsletter

430 North Second Street, Reading, PA 19610 • 610.374.4696 x226 • www.opphouse.org

The Charitable IRA

Changing Laws Bring New Opportunities

Last year Congress took 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.

Author Unknown: In part contributed by The Sharpe Group

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 Making gifts from IRA funds that would be subject to tax if withdrawn voluntarily or under mandatory withdrawal requirements may be wise for many this year and next.

For 2007, Congress is still allowing these individuals with traditional or Roth IRAs to make tax-free gifts directly to qualified charities.* Donors may choose to make charitable distributions in any amount up to \$100,000 per year, if so desired. A couple with separate IRAs could each give up to that amount.

Individuals who are required to take unneeded IRA withdrawals, and others who have experienced limitations on tax benefits in the past, will find the new law of particular interest. Recall also that assets held in Individual Retirement Accounts are not only subject to income tax when withdrawn during one's lifetime or by survivors, but they may also be subject to estate tax if left to loved ones other than a spouse. For that reason, IRAs may be a good choice for some when deciding how to fund charitable gifts. The provisions of the law will affect individuals in a variety of ways.

Example 1:

Ellen and George, ages 71 and 74, are retired with income
(Over)

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

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from a number of sources, including amounts they must withdraw from their IRAs each year. Their IRA withdrawal amounts are fully reportable as part of their adjusted gross income (AGI), potentially causing a number of adverse tax consequences, even when they make charitable gifts from these funds.

This year they have been advised to contact their IRA administrator and make charitable gifts directly from their IRA. While these gifts do not technically result in an additional tax deduction, they are nevertheless tax free. These charitable distributions also do not count toward limits on deductions and other provisions that might have reduced their tax savings in the past.

Example 2:

Jane, age 81, has a taxable estate and is concerned by the fact that at her death the combination of income and estate taxes could consume the majority of an IRA that was funded through assets from her husband's retirement plan. She decides to make a \$100,000 tax-free distribution to charity in both 2006 and 2007 in order to take full advantage of income and estate tax savings opportunities provided under the new law. As a result, she makes special gifts while assuring these IRA funds, which she does not need for herself, will never be subject to income or estate taxation.

Example 3:

Martin, age 72, lives comfortably on his pension, savings, and Social Security. He is required to take minimum withdrawals from his IRA and is taxed on those funds. This distribution also causes more of his Social Security income to be taxed. However, by directing part of his mandatory IRA withdrawal to charity, he avoids reporting that amount as income and does not pay taxes on those funds. He also prevents additional tax on his Social Security benefits.

* To qualify, gifts must be made directly to qualified charities and may not be given to donor advised funds, private foundations, or supporting organizations.

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. Check with your advisors to determine if you can transfer funds from another account to an IRA and then make charitable gifts. If you would like assistance, please contact Lorri Oziri at (610) 374-4696, ext. 226 at Opportunity House.

Benefits for younger people:

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. Opportunity House will be happy to direct you to a professional who can help you.

Example 4:

Henry, age 60, has accumulated assets that he believes are more than sufficient to fund his retirement. He has provided for his loved ones in other ways and has often thought he would like to make a significant charitable gift using a portion of his IRA. He is pleased to learn from his tax advisor that it is possible for him to donate the amount he wishes to give on a virtually

Act now for greatest benefit

To enjoy the full benefit of this opportunity, you must complete the transfer prior to December 31 of 2007. Check with your advisors about the best ways to take advantage of these new giving opportunities. Keep in mind that everyone's circumstances are different, and state as well as federal tax laws may affect your plans.

As always, Opportunity House is pleased to assist you in any way possible. Please contact us at 610-374-4696, ext. 226 or loziri@opphouse.org.