Make Your IRA More Charitable in 2007

The Pension Protection Act of 2006 (PPA) provisions help donors who are older (over 70 Ω years) and don't need as income their mandatory IRA distributions during the 2007 calendar year. The PPA excludes gifts to donor advised funds and private foundations. The following examples are designed to be conversation starters between you and your tax advisor. Please check with your tax advisor before you make any decisions.

Persons age 70 ½ or older may make charitable gifts directly from their traditional or Roth IRA tax free.

Example: Donna and Terry, ages 72 and 75, are retired with income from a number of sources, including required annual minimum distributions that they must withdraw from their IRAs. In the past, their IRA distributions have been fully reported and taxable income as part of their adjusted gross income, even if the funds were used to make charitable gifts. By having their IRA administrator make charitable gifts directly from their IRA, the distributions are not subject to withholding tax. Although these gifts do not technically result in additional tax deductions, they are considered tax free. They also do not count towards limits on deductions and other provisions that might have reduced their tax savings in the past.

Donors may give all or a portion of their mandatory IRA withdrawals up to $100,000 this year.

Example: Jane, age 86, has a taxable estate and is concerned that the combination of income and estate taxes could consume the majority of the IRA that was funded through her late husband's retirement plan. She makes a $100,000 tax-free distribution to the Ronald McDonald House Charities, Upper Midwest in 2007 in order to take full advantage of the PPA provisions. As a result, she has made a very special gift while assuring that this portion of her IRA, which she does need for herself, will never be subject to income or estate taxation.

Even donors over the age of 70 ½ who do not itemize their tax deductions can give directly from their IRA and achieve the same benefits as if their gifts were fully deductible.

Example: Reid, age 76, lives comfortably on his pension, savings and Social Security. However, he is required to take a minimum withdrawal from his IRA and is taxed on those funds. Last year, this distribution also caused more of his Social Security income to be taxed. However, by directing part of his mandatory IRA withdrawal to RMHC, he avoids having to report the distribution as income and does not have to pay taxes on these funds. This prevents additional tax on his Social Security benefits.