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Give to Charity – Take Advantage of the Charitable IRA Rollover Fact Sheet for Donors

Charities and foundations are created and sustained by people who want to give their resources to solve problems and enrich their communities. Recognizing this, lawmakers recently enacted a provision intended to encourage increased charitable giving by rewarding Americans who make donations to charitable organizations. During 2006 and 2007, the **Charitable IRA Rollover** permits taxpayers age 70½ and older to make tax-free charitable gifts totaling up to \$100,000 per year from traditional Individual Retirement Accounts (IRA) and Roth IRAs.

HOW DOES THE IRA ROLLOVER WORK?

Taxpayers age 70½ and older are required to make annual distributions from their retirement accounts. The distributions are included in the taxpayers' adjusted gross income (AGI), and taxpayers pay taxes on them. The Charitable IRA Rollover permits taxpayers to make donations directly to charitable organizations from their IRAs without counting them as part of their AGI and, consequently, without paying taxes on them.

WHO BENEFITS FROM THE IRA ROLLOVER?

- **Taxpayers who don't itemize their deductions.** The IRA rollover most benefits the nearly two-thirds of Americans who do not itemize deductions on their annual income tax returns and therefore do not receive a tax benefit for their charitable contributions. Non-itemizers include lower- and middle-income taxpayers, as well as an estimated 5.2 million higher-income individuals.
- **Itemizing taxpayers who've reached the charitable giving limit.** Donors who itemize their taxes are prohibited from deducting more than 50 percent of their AGI for the purpose of making charitable donations. However, donations from an IRA are excluded from the percentage limit, allowing individuals who have reached the 50 percent threshold to give more.
- **Taxpayers whose tax deductions decrease as their income increases.** Several federal tax deductions – dependent and personal exemption deductions and deductions for medical expenses and non-business casualty losses, for instance – become smaller as a taxpayer's income increases. By making charitable donations from an IRA, rather than making regular, required distributions that qualify as income, taxpayers keep their annual income down and qualify for other tax deductions.
- **Taxpayers who live in states that don't permit tax deductions for charitable donations.** Indiana, Michigan, New Jersey, Ohio, Massachusetts, and West Virginia do not allow itemized tax deductions, and taxpayers are required to pay state income tax on all charitable donations. By making a charitable donation through an IRA, taxpayers exclude the amount from their state income and, consequently, from state taxes.

**See the reverse side for a checklist of
what you need to know to take advantage of the IRA rollover.**

*This information is intended to provide general guidance and is not a substitute for professional counsel.
Consult your tax or legal advisor for professional guidance.*

WHAT DO YOU NEED TO KNOW TO TAKE ADVANTAGE OF THE IRA ROLLOVER?

- ☑ **Give Now.** Only contributions made between January 1, 2006 and December 31, 2007, are eligible for the enhanced tax benefit.
- ☑ **Age Requirement.** You must be 70½ years old or older when the distribution is made.
- ☑ **Donation Limit.** Your total combined charitable IRA rollover contributions cannot exceed \$100,000 in any one year.

What happens if you distribute more than \$100,000 from your IRA to charity?

Charitable contributions from an IRA totaling more than \$100,000 will not be eligible for tax-free treatment and will be counted as part of your annual gross income.

- ☑ **Eligible Charities.** Any charitable contributions you make from an IRA must go directly to a public charity. Contributions to supporting organizations, donor-advised funds, and private foundations, except in narrow circumstances, do not qualify for the tax-free treatment. Before making an IRA rollover contribution, contact the recipient charity to confirm that it is eligible to receive tax-free gifts from IRAs. The charity's determination letter from the IRS will indicate whether it is a qualified charity, exempt under Sections 501(c) and 509(a)(1), 509(a)(2), or 509(a)(4) of the Internal Revenue Code; or, if it is an ineligible supporting organization, exempt under Section 509(a)(1)(3).
- ☑ **Eligible Retirement Accounts.** Distributions can only be made from traditional Individual Retirement Accounts or Roth IRAs. Charitable donations from 403(b) plans, 401(k) plans, pension plans, and other retirement plans are ineligible for the tax-free treatment.

Do charitable contributions from IRAs count toward your annual IRA distribution requirement?

Yes, you can give your required distribution to a qualified charitable organization without having to count it in your taxable income.

- ☑ **Directly to the Charity.** Distributions must be made directly from the IRA trustee payable to the public charity.
- ☑ **No Gifts in Return.** You cannot receive any goods or services in return for charitable IRA rollover contributions in order to qualify for tax-free treatment. Ineligible benefits include auctions, raffle tickets, fundraising dinners, or any other type of quid-pro-quo transactions.
- ☑ **Written Receipt.** In order to benefit from the tax-free treatment, you must obtain written substantiation of each IRA rollover contribution from each recipient charity.

How can you ensure you receive a receipt from the recipient charity?

In most instances, your IRA administrator will send your charitable donation in the form of a check directly to the recipient charity and is not likely to include your name with the contribution.

- In requesting the distribution by letter, you should ask your IRA administrator to include your name and contact information with the contribution.

You should also inform the recipient charity of your donation and request contemporaneous written acknowledgement.

- Submit a letter to the recipient charity asking it to acknowledge in written form:
 1. The gift amount;
 2. That the organization is a public charity qualified to receive donations from IRAs;
 3. That the gift will not be distributed to a donor-advised fund or supporting organization; and
 4. That no goods or services were received by you in exchange for the contribution.

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