Tax-free IRA rollovers to charity return

The 2008 Economic Stabilization Act that became law in October included extensions of tax breaks that had expired at the end of 2007. One of them, the revival of tax-free rollovers from IRAs to charity, may deserve your immediate attention.

A two-year window opened in 2006, permitting IRA and Roth IRA owners who were at least age 70 ½ to make charitable transfers of up to $100,000 from their IRAs without having to report the gift as taxable income and pay tax. The window now has reopened for 2008 and 2009.

70½ reasons

The age 70½ requirement is especially significant because that's the age at which owners of traditional IRAs must begin receiving what's known as required minimum distributions every year. The distributions must be reported as taxable income on their federal income tax returns.

Rollovers to charity may be counted toward these required distributions and need not be reported as income. So, if you haven't yet withdrawn funds from your IRA to satisfy the mandatory distribution requirement, and you are charitably inclined, you have until December 31 to arrange a rollover for 2008. If your spouse has a separate IRA, provided that all the rules are satisfied, he or she is entitled to make a charitable IRA rollover as well.

Although you are not entitled to make a direct rollover from a company retirement plan, such as a 401(k) plan, a two-step process can work: If you are entitled to roll over your funds from the plan to an IRA, do that first. Then, as long as you are at least age 70½ and meet all the other requirements, you can arrange for the rollover to your charity.

Two other points to bear in mind: The rollover must be direct, by way of a transfer from the trustee of your IRA to a qualified charity. To avoid an unpleasant surprise, find out if rollovers to charity are excluded from your income for state income tax purposes.

Why not withdraw the money and then make the gift?

If you take your mandatory distribution from your IRA and then contribute the amount to charity, you will be able to write off your contribution as long as you itemize your deductions. For non itemizers, then, the rollover opportunity is especially advantageous. But it's preferable, too, even if you itemize your deductions because mandatory distributions inflate your adjusted taxable income (AGI), a measuring touchstone for many tax deductions, exemptions and other benefits.

For instance, if you are making large gifts relative to your AGI, your rollover isn't counted toward the cap on your overall charitable contributions (50% of your AGI). Additional taxable income could mean more income tax on your Social Security or that you might not receive the full amount of your itemized deductions. A larger AGI can affect your personal exemptions and reduce the size or even the availability of certain deductions.

If we serve as the trustee of your IRA, we will be glad to work with you and your charity to arrange for a direct transfer of the funds in your account. Give us a call now.

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