The Charitable IRA Rollover

Frequently Asked Questions

AFHU AMERICAN FRIENDS OF THE HEBREW UNIVERSITY

1. 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 the income is taxable. Traditionally, an individual who receives a distribution from an IRA and makes a corresponding charitable contribution to AFHU must count the distribution as income and receives a charitable deduction for any amounts transferred to AFHU.

The Charitable IRA Rollover was made possible by the passage of The Pension Protection Act of 2006 (the "Act") and has been **extended through 2009.** The Charitable IRA Rollover permits taxpayers age 70½ and older to make gifts directly from their IRAs and Roth IRAs to qualified public charities, such as AFHU without counting them as part of their AGI and consequently, without paying taxes on them. Under the Act, the maximum amount of charitable contributions allowable for an individual from IRAs is $100,000 per year; in the case of a married couple, $100,000 per spouse, per year.

2. How will charitable distributions impact the minimum required distributions from a taxpayer's IRA?

The Charitable IRA Rollover also qualifies for the IRA owner's required minimum distribution. A charitable distribution from an IRA to AFHU will receive the same treatment as a distribution to the individual taxpayer for the purposes of minimum required distributions.

3. Does a donor also receive a charitable deduction when they roll over assets to AFHU under this provision?

The Charitable IRA Rollover also qualifies for the IRA owner's required minimum distribution. A charitable distribution from an IRA to AFHU will receive the same treatment as a distribution to the individual taxpayer for the purposes of minimum required distributions.

4. Who will benefit from utilizing the IRA Charitable Rollover?

The primary reason IRA owners use the rollover to make charitable gifts is the convenience of a direct transfer from an IRA to their favorite charity such as AFHU, without incurring any income tax liability for the transfer. Some donors find that they have substantial amounts in their IRAs and this is the best way for them to make a charitable gift.

Donors who itemize on their income tax returns and have reached the charitable giving limit. Donors who itemize their income 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.

Donors whose tax deductions decrease as their income increases.
Several federal tax deductions, including the dependent and personal exemption deduc-

tions and deductions for medical expenses and non-business casualty losses decrease as a donor/taxpayer's income increases. By making charitable donations from an IRA rather than making regular required distributions that qualify as income, donors reduce their annual income and qualify for other tax deductions.

Since the rollover gift is excluded from income, neither the percentage limitations on charitable deductions nor the itemized deduction reduction rules apply, and the donor achieves a tax benefit.

For Donors who do not itemize. The tax benefit is the ability to exclude the distribution from gross income. The rollover allows them to reduce their required distribution and save on current taxes. Social security recipients have been able to reduce their income levels and save on taxes.

Taxpayers who live in states that do not permit tax deductions for charitable donations. Donors in some states may recognize greater benefits of a charitable rollover due to state income tax laws. Indiana, Michigan, New Jersey, Ohio, Massachusetts, and West Virginia do not allow itemized tax deductions, and donors are required to pay state income tax on all charitable donations. By making a charitable donation through an IRA, donors exclude the amount from their state income and consequently, from state taxes.

5. How does an individual make a qualified charitable distribution?

A donor directs his/her IRA custodian to make the contribution directly to AFHU.

6. Are all Individual Retirement Accounts eligible?

Distributions can only be made from traditional IRAs 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.

7. May a charity provide any goods or services in return for the contribution?

No. There are some restrictions in the Act on IRA Rollover gifts. The IRA gift may not be for a combined charitable and donor benefit purpose, such as a contribution to purchase tickets or a table for an AFHU Tribute Dinner. If a donor receives any goods or services, the donor's charitable deduction is reduced by the value of the goods and/or services received (e.g., the value of a meal). Token gifts and inconsequential benefits to the donor are disregarded and will not disqualify the contribution from the tax-free treatment.

9. What if a donor contributes more than $100,000 to a qualified charity from an IRA?

Since the amount that the donor is able to exclude from income is limited to $100,000 under the Act, the remaining amount would be recognized as income. The donor may still contribute the additional amount to AFHU; however, the extent to which that additional amount can be deducted from the individual's income will be determined following general rules about percentage limitations on the use of charitable deductions and the itemized contribution reduction.

10. Should a charity receiving a contribution directly from an IRA provide a gift acknowledgement?

Yes. An individual must obtain a written acknowledgement of the contribution from AFHU to qualify for the treatment of the contribution under this provision.

11. How is the Charitable IRA Rollover (also known as a Charitable IRA Exclusion) reported on income tax returns?

Donors may inquire how the Charitable IRA Rollover (also known as a Charitable IRA Exclusion) is reported on their income tax returns. The custodian of the donor's IRA will report all distributions from the IRA to both the Donor/IRA owner and to the IRS. Then, the Donor/IRA owner will report all of the distributions on line 15A of Form 1040 but only the taxable distributions on line 15B. Thus, the reporting procedure for a Charitable IRA Rollover will be similar to that for a traditional rollover, where a person may have received a taxable distribution from a retirement account but is able to avoid taxation by rolling over the amount within 60 days to an IRA or to some other type of eligible retirement account. These charitable IRA gifts will not be disclosed in any way on the IRS Form Schedule, where itemized deductions including traditional charitable gifts are reported

Example: Simon Cohen, age 78, has been an AFHU donor since 2002 and supports the innovative research on Deep Brain Stimulation being conducted at Hebrew University–ever since his father was diagnosed with Parkinsons Disease.

To avoid the penalty for failure to take minimum required distributions after age 70½, Simon is required to withdraw $85,000 from his IRA. Due to the recent extension of the IRA charitable rollover provision, Simon requested that the custodian of his IRA send a $75,000 charitable contribution directly to AFHU.

Simon will receive an acknowledgment from AFHU, stating that he received no personal benefit for the gift, so the entire gift will qualify for an income tax charitable deduction (this is necessary to qualify for the Charitable IRA Exclusion).

If Simon withdraws an additional $10,000 from the IRA, his IRA custodian would issue a Form 1099-R and report $85,000 of total distributions. Simon would then report the $85,000 of total distributions on Line 15A of Form 1040, but will report only $10,000 of taxable distributions on Line 15B. Simon's $75,000 charitable gift will not be reported on the Schedule of IRS 1040, where he would list any other charitable gifts that he made.

It is important that our donors consult with their own professional tax advisors to determine the effect of their Charitable Rollover contributions on their specific tax situation.

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