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# The IRA Charitable Rollover

*A New Incentive for Charitable Giving*



On August 17, 2006, President Bush signed The Pension Protection Act of 2006 into law. Now, there is a one-step option for making a lifetime gift of an IRA asset. Certain donors can direct a distribution to go directly to a charity. The simplicity of the distribution is the greatest benefit of such a gift because there is no federal taxable event for the IRA owner. It is a new incentive for charitable giving that deserves attention from everyone who meets the requirements for these gifts.

## **The Basic Idea**

To understand the possible advantages the IRA Charitable Rollover affords, here are the basics:

- An Individual Retirement Account (IRA) is a tax-deferred retirement account.
- One contributes to the account and, for a traditional IRA, takes an above-the-line income tax deduction.

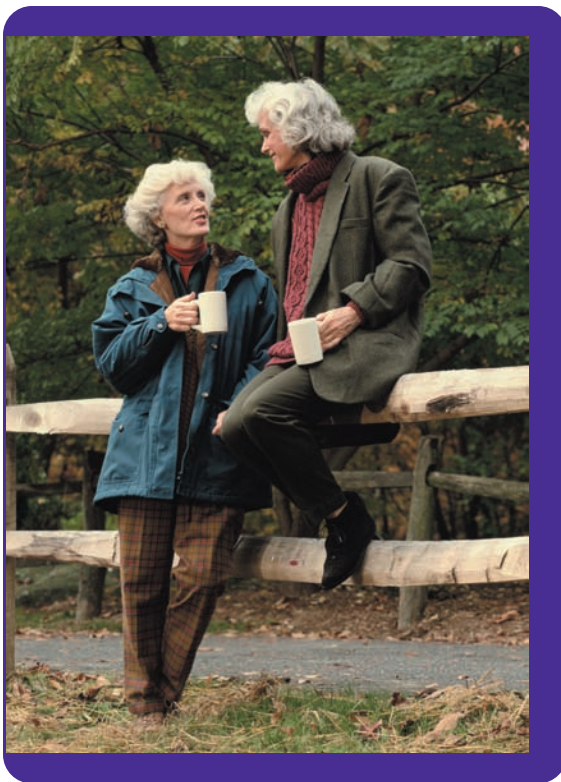


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- As IRA assets increase in value, the earnings are not taxed.
- However, once an amount is withdrawn from these accounts, the distribution is typically taxed as ordinary income (a marginal tax rate as high as 35%).

Before the arrival of the IRA Charitable Rollover, the only way to make a lifetime charitable gift using IRA assets was to first withdraw an amount from the IRA, and then send the same amount to a qualified charity. As noted, the withdrawal would be taxed as ordinary income. The amount transferred to charity could be deducted by the donor (subject to deduction limits). Hopefully, the charitable deduction would successfully offset the income tax due on the withdrawal from the IRA account.



Now, under the new law, the IRA Charitable Rollover features one simple step:

**The IRA owner instructs the IRA custodian to transfer \$ directly to a charity.**

It is that simple. The IRA owner does not include the IRA distribution as income, nor does the owner report the IRA distribution for federal tax purposes. The charity immediately

benefits from the gift — a simple transfer with an instant impact!

## The new law

Here are the highlights of the IRA Charitable Rollover:

- The IRA Charitable Rollover provision is in effect for 2006 and 2007.
- Donors must be 70½ or older on the date of the distribution in order to participate.
- Donors direct the distribution to a qualified charity as defined in IRC §170(b)(1)(A) (with some exceptions).
- Donors may count the amount of the distribution made through an IRA Charitable Rollover towards the Required Minimum Distribution for tax-deferred retirement accounts in that year.
- The exclusion of the IRA distribution from donor income may not exceed \$100,000 per year.

### An illustration

Abby B. (age 72) owns a traditional IRA with a balance of \$350,000. The entire balance consists of deductible contributions and earnings. After calling our offices for general information on the new legislation, she discussed matters with her CPA and decided she wanted to make an IRA charitable rollover.

She instructs the IRA custodian to distribute \$20,000 directly to our organization. The entire \$20,000 qualifies as a charitable distribution:

- The distribution is not included in Abby's personal income on her federal taxes.
- The distribution is not taken into account in determining the amount of Abby's charitable deduction for the year.
- The distribution *does* count towards the amount that Abby has to remove from her IRA as a required minimum distribution for 2006.

Abby appreciates the simple process (especially since she doesn't need to bother with accounting for IRA income for this year). She thinks it is great way to make a gift to our organization without stretching her patience.



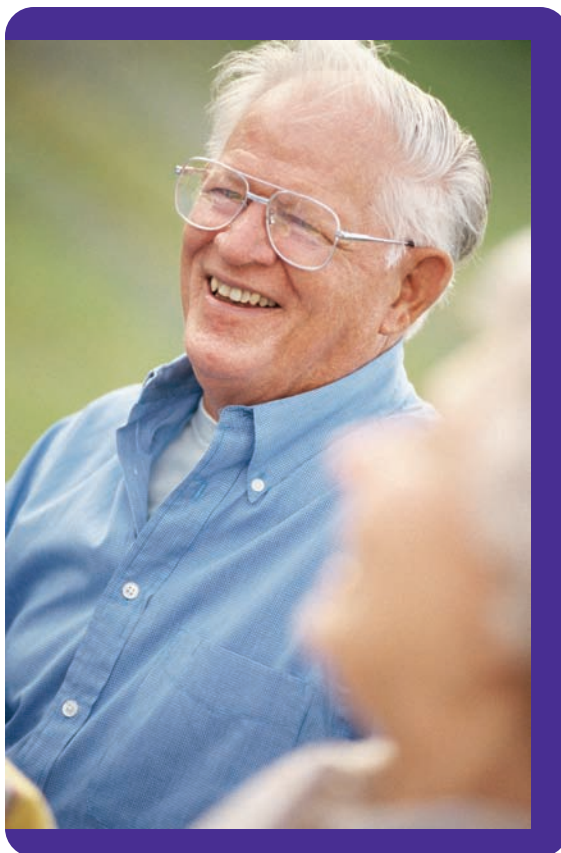
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## Features, advantages and benefits of the new law

Here is short list of the types of donors who might benefit from the IRA Charitable Rollover:

- Donors who do not itemize deductions on their income taxes but who want to make a charitable gift. The same donors eligible to make an IRA Charitable Rollover gift also are required to make a minimum distribution from the same account. Instead of realizing the income from a distribution, a donor can simply direct the distribution to a charity. That way, the donor who does not itemize will not realize taxable income in an effort to make a charitable gift.



- Donors who live in states that do not offer a charitable deduction for income tax purposes. There are several states which either have no deduction for charitable gifts, or have limited the deduction. If a gift is made directly to a charity from an IRA, the availability of the charitable deduction is moot.



- Donors who are subject to the deductibility limits (50% of adjusted gross income for a gift of cash to a qualified charity). A donor can make a gift directly from an IRA without it affecting the deductibility limits (because the gift is not deducted). The IRA Charitable Rollover approach permits a donor to make a larger gift to a charity yet stay within the deductibility limits for charitable deductions.
- Taxpayers who begin to lose tax deductions as the adjusted gross income increases. If the taxpayer chooses to direct a distribution from the IRA to a charity, the amount is not included in his or her gross income. This way the taxpayer can keep the adjusted gross income lower and keep other deductions intact.

## Some Limitations

The IRA Charitable Rollover offers important benefits to donors, but, there are some limitations. Here's a brief list to keep in mind:

- Donors may not take an income tax charitable deduction for the distribution.



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- Donors may not direct the tax-free distribution to fund a gift annuity or a charitable remainder trust.
- Donors may not direct the tax-free distribution in lieu of entertainment or gaming opportunities provided by the charity.
- Donors may not direct the tax-free distribution to a donor advised fund or a Sec. 509(a) (3) supporting organization.
- Donors must direct the distribution from an IRA only (note — this is a traditional IRA or a Roth IRA, though there may be less incentive to use a Roth IRA since distributions are generally tax-free). Distributions made from a 401(k), 403(b), or 457 plan, etc. do not qualify.
- Donors must make a distribution that would otherwise be considered as taxable. However, if the donor owns assets within the IRA that were nondeductible at the time of the contribution, the donor may have the opportunity to deduct that part of the distribution at this time.

## The next step

The IRA Charitable Rollover is another example of how Congress encourages charitable giving. Hopefully, this brochure serves as a first step in helping donors understand this opportunity. To find out how an IRA Charitable Rollover may fit in your planning, talk to your financial and tax advisors. Be sure to contact our offices for the exact information on where to direct a distribution, or to ask any questions regarding this exciting development in charitable giving!

*Figures in our examples are based on average interest rates, and may be different at the time of a gift. The federal estate tax is scheduled to be repealed for one year in 2010. Tax information provided herein is not intended as tax or legal advice and cannot be relied on to avoid statutory penalties. Always check with your tax and financial advisors before implementing any gift.*

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