Give the gift of heritage

As the year draws to an end, an IRA charitable rollover opportunity rolls on – creating the perfect opportunity to make a difference at NIAF

By Marc Verga

As part of the Emergency Economic Stabilization Act of 2008, Congress allowed an important window of opportunity to remain open—one that enables IRA owners age 70 ½ or older to directly transfer up to $100,000 tax-free to a nonprofit in 2009. Because this provision applies to every individual IRA holder, a husband and wife who both meet the minimum age threshold could effectively move $200,000 out of their taxable estate in this tax year.

Your contributions to the National Italian American Foundation will help it continue to provide scholarships, grants and travel opportunities for future generations of Italian Americans. Please take this opportunity to consider whether this provision is right for you.

Is Transferring Money from Your IRA to a Charity Right for You?

The ability to transfer money tax-free from your IRA to contribute to a charity—such as NIAF—can be an excellent way to advance both your philanthropic and estate plans. While you will not receive a charitable deduction for a transfer from your IRA to a charity, the amount of your transfer will never be included in your gross income.

If you fit any of the following profiles, I would encourage you to contact your financial and tax advisor before year-end to help determine if this provision is appropriate for you.

- Are you 70 ½ and already receiving your required minimum distributions (RMDs)? Any IRA holder who has reached the age of 70 ½ is eligible to make the tax-free transfer of funds from his or her IRA to a public charity. Also at 70 ½, the IRA holder starts to receive the taxable required minimum distributions (RMDs) from his or her IRA. Accordingly, at year-end, many charitable-minded IRA holders with excess RMD amounts would prefer to use these funds for charitable contributions. The 2006 Pension Act permits an IRA holder to distribute either a portion or all of his or her RMD tax-free directly from his or her IRA by transferring any amount up to a total of $100,000 to a favorite qualified public charity. The IRA holder reduces his or her taxable income by the amount distributed and the charity receives a contribution.
- Do you have a large IRA that likely will be subject to estate taxes at death? IRA assets are subject to estate taxes and estate beneficiaries may have to pay income taxes on IRA assets they inherit. Using the IRA charitable distribution provision permits an IRA holder to reduce the size of his or her estate, thereby reducing the total amount of taxes imposed.
- Do you take the standard deduction when calculating your taxes or do you itemize? Many retirees take the standard deduction when calculating their income-tax liability because they don't generate enough deductible expenses or income to make itemizing worthwhile. As a result, they could be losing out on the tax advantages of deducting their charitable donations. An IRA holder who uses the tax-free IRA charitable-distribution provision as a way to make charitable contributions will be able to obtain the tax benefit of the contribution without having to itemize his or her deductions.
- Are you collecting Social Security? An IRA holder who collects Social Security is also required to receive the RMD from his or her IRA at age 70 ½. The amount of the RMD could increase income to a level where a portion of your Social Security benefit is taxable. By using the IRA charitable distribution provision, the IRA holder may reduce total income and thereby reduce the taxes imposed on Social Security benefits.
- Are you interested in donating more than 50% of your annual income in 2009? Typically, a donor may only deduct a cash contribution to a charity up to 50% of his or her adjusted gross income (AGI) in any given year. Any excess charitable contribution deductions are carried over to the following five years. By using the tax-free IRA charitable-distribution provision to transfer money directly from an IRA to a charity, the donor effectively "skips" the 50% AGI charitable deduction limitation. Therefore, an IRA holder may donate up to $100,000 in 2009 from his or her IRA without having to worry about the 50% AGI charitable deduction limitation. An IRA holder who has a large IRA may use this method to reduce its size during his or her lifetime leaving less exposed to income and estate taxes at death.
- Do you live in a state with unfavorable tax rules for charitable deductions and RMDs? The ability to make a tax-free transfer to charity from an IRA could be especially appealing to residents in states that impose state income tax on IRA distributions and don't allow any offsetting charitable deductions. The 2006 Pension Act permits the IRA holder to make the charitable contribution directly to a quali-

fied charity from his or her IRA and not have to treat the contribution as a taxable IRA distribution, thereby avoiding any state or local tax imposed on IRA distributions.

Additional Requirements

Any IRA holder who takes advantage of the tax-free IRA charitable distribution must send a letter to the qualified charity informing the charity of the donation. Here are some important points to keep in mind:

- You must be 70 ½ on or before the date of the charitable transfer.
- Contact us before making a donation to arrange for the proper transfer of funds from your IRA to the charitable organization.
- You may not write a check to the charity from another account into which you transferred your IRA funds. Doing so would eliminate the tax-free treatment and would cause the amount distributed to be included in your taxable income.
- Donor advised funds and most private foundations are prohibited from receiving IRA rollover gifts.
- You cannot receive anything of value in return for your donation. For example, you cannot get tickets to a charitable event for your donation.
- The transfer must come from a traditional or a Roth IRA. Transfers to a charity from other retirement plans, such as a SEP or SIMPLE IRA, or from a 401(k) or 403(b) plan will not qualify under this provision. It may be possible, however, to roll over funds from these accounts into a traditional IRA or a Roth IRA and then make an eligible transfer to charity.
- A qualified charitable distribution is treated as coming first from deductible contributions and earnings. If you have made non-deductible contributions to your IRA, have your tax advisor determine how much of the donation is considered tax-free under this provision.

After the IRA Charitable Distribution: Written Documentation Requirement

Cash donations, regardless of whether the contributions are made from an IRA or another source, must be backed up by "proper" records, such as a check, bank copy of the check, electronic funds transfer record, credit card or credit union statement, payroll stub or W-2 (in the case of a payroll deduction). These must show the name of the charity, the donation amount and the date paid or transaction posting date. A written acknowledgment from the charity showing that information also will suffice.

For more information on how you can share your wealth with NIAF, please contact Chief Financial Officer Anne Drefs Kasputis at 202-387-0600 or anne@niaf.org.

Marc Verga is a Senior Vice President – Wealth Management and Financial Advisor at Morgan Stanley Smith Barney located in Providence, Rhode Island. He can be reached at marc.a.verga@smithbarney.com.