

Personal Finance

## Pension Protection Act can aid charitable giving

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As year-end approaches, many of us are thinking about last-minute tax-planning issues we should address. One you may not have thought of because the legislation is so recent is tax-advantaged charitable contributions from IRAs.

The Pension Protection Act of 2006 became law in August. Of particular interest is one of the charitable giving incentives it includes. For individuals who have reached 70 1/2 and have an Individual Retirement Account, tax-free distributions to nonprofit organizations now are possible for a limited time.

Previously, distributions from IRAs for charitable gifts were fully taxable at the federal level (except for Roth IRAs and IRAs funded with nondeductible contributions). Now, in addition to being tax-free, charitable contributions also count toward the IRA holder's annual Required Minimum Distribution (RMD). And since there's no tax deduction involved -- the distribution is simply excluded from gross income -- even those who don't itemize deductions may participate.

The key points to know about the legislation are:

- You must be at least 70 1/2.
- Gifts must be from your traditional, rollover or Roth IRA
- Tax-free charitable gifts from IRAs are allowed only in 2006 and 2007.
- Charitable distributions from your IRA may not exceed \$100,000 per year.
- Distributions must be made directly from the IRA custodian to the charity.
- Distributions must be outright charitable gifts, as opposed to contributions to fund gift annuities or other planned giving arrangements that don't qualify.
- Public charities qualify to receive IRA gifts, but private foundations, donor-advised funds and support organizations don't.

Those who would benefit most from the new tax-advantaged charitable contributions from IRAs are individuals who are required, due to their age, to take minimum IRA distributions, but who don't need or want taxable income from that source.

The benefits would be the greatest for those who don't itemize deductions. There's no charitable deduction for an IRA charitable transfer. Rather, the amount transferred simply isn't considered when you calculate taxable income. So, an IRA charitable distribution is tax-free whether you

itemize or not.

However, its greatest advantage is to the non-itemizer who would have received no deduction for their charitable gift if made from assets outside their IRA.

It's interesting to note that the 2006 act included charitable gifts from Roth IRAs in their approved transfers. Given that distributions from Roth IRAs are already tax-free, we don't see any advantage to gifting from a Roth. There would be a charitable deduction, but since the principal and growth in a Roth IRA are permanently tax-free, there are better alternatives.

A gift from a Roth IRA is the same as a gift of cash, so contributing appreciated assets such as securities or other property has more advantageous tax implications. And after a nice run in the market, portfolios have much more pent-up gains than they did a few years ago.

If you've already taken your required minimum distribution for this year, it's, unfortunately, too late to donate that money to a charity in 2006. The transfer has to come directly from the custodian to the charity. However, you can still make a "pre-tax" charitable distribution beyond your RMD if it's a prudent financial decision for you.

If an IRA charitable contribution sounds appealing to you, don't wait to talk to the custodian of your IRA about it. You should find out exactly what paperwork you'll need to fill out and with what information.

As year-end approaches, the back offices of financial institutions can get very busy, so don't wait until the last minute.

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