
Charitable Giving from Your IRA Rollover Reinstated



The bundle of tax legislation hustled through Congress in late 2010 included a one-year (2011) extension of the popular “IRA rollover.” Under this rollover provision, individuals who are aged 70½ may make direct charitable contributions up to a total of \$100,000 in calendar year 2011 from their Individual Retirement Accounts (IRA). This distribution will help you satisfy the required minimum distribution (RMD) you must take from your traditional IRAs after age 70½. Plus, the distribution will be excluded from your gross income—but you will not receive a charitable deduction for the amount going to charity. Why? Since the distribution is excluded from your income, the IRS won’t allow a double benefit.

Still, rollovers offer some real tax benefits, because structuring a distribution as a rollover allows you to escape some of the endless complexities of our income-tax system. For example, if you were to take a traditional distribution—that is, distribution directly to you followed by a deductible gift to charity—you might find that your hoped-for deduction is reduced (or deferred) by the “income percentage limitations.” This term of art refers to the fact that you generally can’t take a charitable deduction for an amount in excess of 50 percent of your income. Also, other benefits stem from the fact that rollover distributions are not, as already mentioned, included in your gross income. This is helpful because gross income serves as the calculation base for such things as the various limitations on

itemized deductions and the level of taxation of Social Security payments. The more gross income you have, the more your deductions will be limited, the more your Social Security will be subject to tax, and the more your Alternative Minimum Tax (AMT) exemption will be reduced.

The overarching point of this discussion is that you should check with your tax adviser to see if this provision might be helpful to you in 2011. Perhaps it would facilitate a gift to Cato or another favorite charity. As always with tax benefits, numerous rules and limitations apply. While you can review these in full with your adviser, some of the more generally pertinent limitations are that:

- the owner of the IRA must be at least 70½ when the distribution is made;
- the gift must be from a traditional or Roth IRA;
- distributions must be made by December 31, 2011;
- the donor must direct the IRA manager to transfer funds directly to a public charity; and
- the charity must not provide any goods or services in return for the gift, meaning that the gift may not be used for memberships, friends groups, etc.

For more information about this or other gifting topics, please contact Cato’s director of planned giving, **Gayllis Ward**, at (202)-218-4631 or at gward@cato.org. ■