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## *Weekly Financial Article for the Week of November 19, 2007*

### **AN IRA GIFT COULD REDUCE YOUR TAXES**

*For a limited time only, you can make an IRA charitable rollover.*

**Do you have a Traditional IRA or an inherited Roth IRA?** If you do, the federal government has given you an interesting option for the 2007 tax year: the IRA charitable rollover. You must be age 70½ or older to take advantage of it, and you also have to abide by certain I.R.S. rules. If you want to save significant taxes and contribute to the charity of your choice, you should definitely take a look at this possibility.

**A big tax break for some IRA owners.** As you probably know, the I.R.S. views money withdrawn from your IRA as taxable income. But this year, you can make a tax-free charitable gift of up to \$100,000 directly from your IRA without incurring any taxable income. You can thank the Pension Protection Act of 2006 for this option. (Prior to the PPA, you could use IRA assets to make a charitable gift, but it was a bit more complex -- you had to report the withdrawal as income, and then declare an offsetting income tax deduction for the charitable contribution.)

**Who does this benefit?** If you are 70½ or older, an IRA charitable rollover could prove financially useful to you if any of the following applies: a) you have to take mandatory IRA withdrawals but really don't need the additional income; b) you hold the bulk of your invested assets within IRAs, c) you usually gift up to 50% of your adjusted gross income annually, d) you live in a state where state tax laws won't permit charitable deductions, e) you are subject to the 2% rule reducing itemized deductions, f) you don't itemize deductions in the first place. The charity you choose will certainly benefit - it will receive the full value of the gift with no tax consequences.

Hypothetically, let's say you're in the 28% tax bracket and you have to withdraw \$20,000 from your IRA this year as an MRD and you intend to gift \$20,000 to a charity as an itemized deduction. If you transfer that \$20,000 to a qualified charitable organization directly from your IRA, you can cut your federal and state taxes by \$5,600.<sup>1</sup>

**What you can and can't do.** There are some conditions to be met before you can make an IRA charitable rollover. You have to be 70½ or older when you make the gift. There must be a direct transfer of assets from the IRA custodian to the qualifying charity. The contribution ceiling is \$100,000.

You have to gift the assets to a tax-exempt organization that accepts deductible contributions - such as a charity, a university, or another type of qualified nonprofit organization. The assets can't go to donor-advised funds, charitable gift annuities or charitable remainder trusts. The assets have to come out of traditional, rollover, and Roth IRAs, and not a SIMPLE IRA, a SEP plan, or a 401(k) or 403(b).

**Your deadline: 12/31/07.** If you'd like to plan to realize this tax reduction, you need to do it soon. The rule allowing contributions to charitable organizations from IRAs expires on January

1, 2008. But if you are 70½ or older now (or will turn 70½ before New Year's Day) and meet the other qualifications, this tax advantage is there for the taking.

Will you have this option in years to come? There is no guarantee. Rep. Nick Lampson (D- TX) introduced the Charitable Tax Relief Act of 2007 last month in hopes of making the option permanent.<sup>2</sup> Another piece of proposed legislation, The Public Good IRA Rollover Act of 2007, introduced by Sens. Byron Dorgan (D-ND) and Olympia Snowe (R-ME) and Reps. Earl Pomeroy (D-ND) and Wally Herger (R-CA), would maintain and expand the current rules to allow gifts of more than \$100,000.<sup>3</sup>

**Are you eligible?** If this option sounds attractive, make sure you talk to a qualified financial advisor, attorney or accountant to confirm that you can qualify for an IRA charitable rollover before you make a move. Remember, the deadline is less than two months away.