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USING YOUR IRA TO FUND CHARITABLE GIFTS

TAX BREAK EXPIRING AT THE END OF 2011

For Clients and Friends of GSRP, LLP

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An opportunity to use your individual retirement account ("IRA") assets to fund charitable bequests in a tax advantaged way is set to expire at the end of 2011.

Background

Upon reaching age 70½, individuals are required to take annual minimum withdrawals from their IRAs or face substantial penalties. The Required Minimum Distribution ("RMD") amount is computed based upon the value of the IRAs and the age of the account owner, and is taxed at ordinary income rates. Donations to charities are deductible for income tax purposes, but the deduction for a given year is generally limited to 50% of a taxpayer's adjusted gross income; contributions in excess of the limit can be carried forward for the next five years.

2011 Opportunity

Under a provision in the tax law, which will expire at the end of 2011, if you have reached age 70½ you can direct up to $100,000 to be paid from an IRA directly to a charitable organization (excluding private foundations and donor-advised funds). Funding a gift directly from an IRA carries a number of advantages over making the same gift by other means, such as taking an IRA distribution and later making a charitable gift of those funds.
The amount directed to charity, while satisfying the annual RMD requirement, is not included in taxable income. Although the corresponding transfer to charity will not be deductible for income tax purposes, this strategy can still put you ahead overall.

As noted above, the annual charitable deduction is limited based on your income. Unless you have significant income from other sources, your deduction for a large charitable gift may be limited. For example, assume your income is $50,000 and you want to make a gift of $100,000 to charity. If you take an IRA distribution of $100,000 (thus increasing your income to $150,000), and then make a charitable gift in the same amount, you will only be able to deduct $75,000 in the year of the gift (50% of $150,000). As a result, you have just increased your taxable income by $25,000 even though your cash position is unchanged. Making the gift directly from your IRA to the charity of your choice avoids this whipsaw.
Taking a taxable distribution to make a charitable gift can have other unintended consequences, resulting in inadvertently increasing your income tax. Certain itemized deductions are scaled back for higher income taxpayers. Increasing income will result in reducing the value of those deductions. And because the taxability of social security benefits depends upon income level, a taxable IRA distribution could result in a higher percentage of those benefits being subject to tax.

GSRP CAN HELP

This opportunity to satisfy your annual RMD and make a charitable gift from your IRA in this tax advantaged way will expire at the end of 2011, so the time to act is now. GSRP has extensive experience in income and estate tax planning and is ready to assist you or your clients in determining whether taking advantage of this opportunity makes sense for you.

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