



Pioneer Bank & Trust

Trust & Investments

The Best For The West!

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Last call for the “charitable IRA rollover”?

A popular tax break expires at the end of the year, one that has been dubbed the “charitable IRA rollover.” Those who are over age 70 ½ may want to consider the gift of a direct distribution from their IRAs. Up to \$100,000 may be transferred to charity in this manner. Couples may transfer up to \$200,000 if each partner has an IRA. In contrast to normal IRA distributions, amounts transferred directly to charity won’t be included in ordinary income (and so no charitable deduction is appropriate).

The definition of who is permitted to take advantage of this tax strategy dovetails perfectly with those who are required to take required minimum distributions (RMDs) from their IRAs. So some taxpayers simply opt to direct their required minimum IRA distributions to charity, because the distribution requirement will be satisfied, even though the amounts distributed don’t get taxed.

This tax break might be renewed, as has happened in the past, but in this era of major deficits and talk of tax reform, renewal is far from certain.

Extra tax advantages

In some sense, the income tax exclusion for a transfer to charity from an IRA might not seem like such a big deal. After all, one always has been allowed to follow an IRA withdrawal by a charitable contribution and claim an income tax deduction. However, the full benefit of that deduction is not available to all taxpayers.

- Nonitemizers. There are a great many taxpayers who do not itemize their deductions, even in the upper tax brackets.

- Big donors. Percentage limits on the charitable deduction mean that some donors can’t take a full charitable deduction in the year that they make a gift.

- Social Security recipients. An increase in taxable income may cause an increase in the tax on Social Security benefits for some taxpayers. The direct gift from an IRA avoids this problem.

Accordingly, if you are 70 ½, you should consider a charitable gift from your IRA if:

- You do not itemize tax deductions;
- Your charitable deductions have been maximized; or
- You do not need the additional income made necessary by your required minimum required distribution.

As welcome as this tax planning opportunity is, every taxpayer’s situation is unique. See your tax advisor before taking any action.

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