

## Tax Benefits of IRA Charitable Rollovers

The biggest one: although IRA distributions are normally taxable, amounts rolled over to charity are excluded from the donor's income for federal income tax purposes. Since it's excluded from income, the contribution is technically not deductible, but the economic impact is the same, if not better.<sup>1</sup>

In states (like Ohio) which base their income tax on what's taxable for federal purposes, the amount rolled over to charity is excluded from the donor's income for state income tax purposes as well. This is particularly helpful in states (again, like Ohio) which give no tax deduction for charitable gifts.

Even though the rollover amounts have passed to charity, they are treated – for purposes of the required minimum distribution rules applicable to IRA owners who have reached age 70-1/2 – as satisfying those mandatory annual payouts. So there's a real reduction in taxable income in the year in which an IRA charitable rollover is made, which is very appealing to donors who don't need the money to live on.<sup>2</sup>

Some people (and *most* high income people) have over the years contributed funds to their IRAs which they were not allowed to deduct when the money went in.<sup>3</sup> When these “after tax” dollars come out of the IRA, they are tax-exempt. The rules applicable to charitable rollovers, however, treat 100% of what is rolled over to charity as coming from the “taxable” money in the IRA. This keeps all of the tax-exempt dollars in the IRA, so if they are paid out to an individual beneficiary at a later date they will be tax-exempt.

Because amounts rolled over to charity are excluded from the donor's income for federal income tax purposes, his or her taxable income is of course lower than it otherwise would be. This can make it easier to claim the benefits of the several income tax deductions that are available only to the extent that they exceed a certain percentage of a taxpayer's income.<sup>4</sup>

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<sup>1</sup> The economic benefit is *always* better for taxpayers who do not itemize deductions. (70% of American taxpayers do not itemize deductions, and a surprisingly large number of non-itemizers are well-to-do.) Rollovers are better for itemizers if they are subject to any of the many rules that reduce the value of itemized deductions when federal taxes are calculated.

<sup>2</sup> This is a nice deal, but it has limits. If the required minimum distribution in the year of a rollover was \$20,000 but an IRA charitable rollover was made in the amount of \$100,000, the \$80,000 excess does not directly offset the required annual distributions in later years. But it reduces the size of the IRA, and that indirectly reduces required distributions in future years.

<sup>3</sup> Only relatively low-income IRA owners are allowed to deduct contributions to IRAs.

<sup>4</sup> For older taxpayers, for example, medical expenses are generally deductible only to the extent that they add up to more than 7.5% of adjusted taxable income.

## Technical Requirements for IRA Charitable Rollovers

The IRA charitable rollover law is now a “permanent” part of the Internal Revenue Code, applicable to qualifying transfers made on or after January 1, 2015.<sup>5</sup>

The donor must be 70-1/2 years of age or older at the time of the rollover transaction. He/she must have actually *attained* that age *by the time of the rollover*. You have to have had that half-birthday. You can’t do a charitable rollover earlier in the year in which you become 70-1/2.

The money must come from an individual retirement account, as opposed to a 401(k) plan, 403(b) plan (like TIAA-CREF), or other form of retirement savings. *But*: Money can be taken out of a 401(k), etc., and rolled into an IRA and *then* distributed to charity so as to qualify as an IRA charitable rollover. *However*, don’t do this without professional help. There are some t’s to cross and i’s to dot in order to make this two-step arrangement work, and it can be confusing.

Charitable rollovers should be from “regular” or “traditional” IRAs as opposed to Roth IRAs. Technically, a charitable rollover may be made from a Roth IRA, but the tax benefits of a rollover from a Roth appear to be nonexistent. Charitable rollovers are *not* allowed under the rarely-seen odd ducks known as SEP IRAs or SIMPLE IRAs.

The money must go *directly* from the IRA custodian/trustee to charity. It can’t be paid to the donor first and then contributed by the donor to charity.<sup>6</sup> But it’s OK for the IRA custodian to write the distribution check to the charity and have the IRA owner deliver it; in fact, many IRA custodians prefer this approach.

The recipient charity has to be a 501(c)(3) public charity like CWRU. It can’t be a private foundation or tax-exempt organization of other types. It also can’t be a “supporting organization” tied to a public charity, or a donor advised fund like the Fidelity Charitable Gift Fund or donor advised funds operated by community foundations or other charities.

The donor can’t get anything back in return for the gift. So a charitable rollover can’t be used to fund a charitable gift annuity, charitable remainder trust, or similar arrangement. It’s OK, though, to provide a non-economic benefit, such as putting a rollover donor’s name on something that was funded with the gift.

There is a \$100,000 aggregate limit for such rollovers in a single calendar year. Donors may of course do rollovers for smaller amounts, and rollovers may be made to multiple charities. Rollovers can come from multiple IRAs. But it is a \$100,000 overall annual limit on *all* rollovers from *all* IRAs to *all* recipient charities, not \$100,000 per charity or per IRA. If a husband and wife

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<sup>5</sup> Nothing is really “permanent” in the Internal Revenue Code – future Congresses can repeal anything – but the rollover law no longer has to be reauthorized every year or two, as was the case in the past.

<sup>6</sup> This rule also produces confusion, because “ordinary” rollovers – such as from one plan or IRA to another plan or IRA – can in some circumstances use an individual as a short-term middleman.

are both over 70-1/2 and both have IRAs, though, each can do charitable rollovers of up to \$100,000 in a single year.

Most advisors suggest that IRA charitable rollovers for a particular year be made no later than mid-December, so that they can be *received* by the charity in question before the end of that year. This may or may not be technically required (the IRS has not addressed timing issues with such specificity), but it is certainly prudent to proceed in that manner.