



Make a Tax-Smart Gift by December 31!

There may only be a few weeks left in the year but there's still time to make a gift from your IRA without increasing your income taxes and support girls in their pursuit to develop confidence in STEM, entrepreneurship smarts, life skills and outdoor experiences. To find out how, contact our Fund Development at

gshdevelopment@gshawaii.org or 808-675-5516

Do I Qualify for the IRA QCD Gift?

Do you have questions? Click [here](#) for additional information about IRA's and QCD's from the IRS and refer to this specific information below.

For more information about: IRA Charitable Rollovers, Permanent Charitable Tax Extenders, Permitted IRA Rollover Gifts, IRA Rollovers to Pay Pledges, IRA Rollover Gifts Not Permitted, IRA Rollover Qualifies for RMD, IRA Charitable Rollover Potentially Reduced IRA Custodians and Qualified Charitable Distributions (QCDs) IRA Donor Actions see these guidelines. Confirm your status with your CPA and Financial Advisor.

Contact our [development department](#) to discuss how you'd like to help Girl Scouts of Hawai'i

4.6.8 IRA Charitable Rollovers

IRA Charitable Rollovers

[Permitted IRA Rollover Gifts:](#) IRA rollover gifts may be made to Sec. 509(a)(1) and Sec. 170(b)(1)(A) public charities.

[IRA Rollovers to Pay Pledges:](#) Many tax advisors were concerned that IRA rollovers to pay pledges would be restricted in the same manner that payment of pledges from donor advised funds are restricted.

[IRA Rollover Gifts Not Permitted:](#) There are a number of restrictions on the "qualified charitable distribution" (QCD).

[IRA Rollover Qualifies for RMD:](#) Each year, IRA owners age 72 and older must take a required minimum distribution (RMD).

[IRA Charitable Rollover Potentially Reduced:](#) If an individual makes contributions to a traditional IRA after age 70", the \$100,000 per year qualified charitable distribution (QCD) limit is reduced by the amount of the deductible IRA contributions after that age.

[IRA Custodians and Qualified Charitable Distributions \(QCDs\):](#) IRA custodians generally have IRA distribution forms that may be obtained by mail or downloaded from their websites.

[IRA Donor Actions:](#) IRA owners typically contact their IRA custodian during the 4th quarter of each year and specify the amount of their IRA distribution.

[Treasury IRA Rollover Guidelines:](#) In Notice 2007-7, Treasury released guidelines on IRA rollover provisions of the Pension Protection Act of 2006.

[IRA Rollover Reporting:](#) Under Treasury instructions for IRS Form 1040, the IRA custodian will send a Form 1099 to the donor and report the full qualified charitable distribution amount.

[State Tax Impact:](#) There are at least three different categories of states with respect to the charitable IRA rollover.

[Rollovers from Other Qualified Plans to IRAs:](#) IRA rollovers are generally permitted for most IRAs.

[IRA Charitable Rollover – Donor Profiles:](#) There are five donor profiles for IRA rollover gifts.

[IRA Gift Opportunities:](#) The \$100,000 IRA charitable gifts provision opens up many gift opportunities.

Permanent Charitable Tax Extenders

In December of 2015, both the Senate and House passed the Protecting Americans From Tax Hikes Act of 2015 (H.R. 2029). The bill makes permanent four charitable tax extenders.

The four permanent charitable provisions include the following:

1. Conservation Gift Limits – Gifts of property for conservation purposes benefit from increased deduction limits. The normal 30% limit for appreciated property gifts is increased to 50% and the carry-forward limit is extended from five years to 15 years.

2. Food Inventory Gifts – An enhanced deduction for contributions of "apparently wholesome" food will be available for all donors. The deduction is the lesser of twice the basis or basis plus one-half of the appreciation.

3. IRA Charitable Rollover – Each IRA owner may make a transfer of up to \$100,000 per year to a qualified charity. The IRA charitable rollovers are tax-free and not included in adjusted gross income.

4. S Corporation Appreciated Gifts – A Subchapter S corporation may give appreciated stock or land to charity. Only the basis of the S corporation in the donated asset will be used to reduce the shareholder basis, even though the full fair market value deduction is claimed by the shareholder.

Permitted IRA Rollover Gifts

IRA rollover gifts may be made to [Sec. 509\(a\)\(1\)](#) and [Sec. 170\(b\)\(1\)\(A\)](#) public charities. This also includes [Sec. 170\(b\)\(1\)\(A\)](#) conduit foundations. In most cases, IRA rollover gifts will be a transfer from a regular or Roth IRA to a public charity for the general purposes of that charity. However, it is permissible to make a transfer to a field of interest fund or for a qualified charitable purpose. For example, a transfer from an IRA owner age 71 to a college or university for a particular scholarship fund is permitted. Similarly, a transfer to a relief organization for a specific disaster relief fund is also acceptable.

IRA Rollovers to Pay Pledges

Many tax advisors were concerned that IRA rollovers to pay pledges would be restricted in the same manner that payment of pledges from donor advised funds are restricted. However, since the IRA funds are owned by the IRA owner, they may be used to fulfill a legally-binding pledge. The transfer from the IRA owner to the charity is treated as a receipt by the owner under [Sec. 4975\(d\)\(9\)](#) and therefore the IRA rollover is not a prohibited transaction. See [Notice 2007-7](#).

IRA Rollover Gifts Not Permitted

There are a number of restrictions on the "qualified charitable distribution" (QCD). The QCD may not be made to a [Sec. 509\(a\)\(3\)](#) supporting organization (SO) or to a donor advised fund (DAF) described in [Sec. 4966\(d\)\(2\)](#). Since the rollover is limited to organizations in [Sec. 170\(b\)\(1\)\(A\)](#), private foundations are also excluded, with the exception of the conduit private foundation.

Many charitable organizations and professional advisors hoped that the IRA Rollover would be extended to charitable remainder unitrusts, charitable remainder annuity trusts, pooled income funds and charitable gift annuities. The IRA rollover currently does not include any of these options.

Finally, the "entire distribution" transferred to the charity must qualify for a [Sec. 170](#) charitable deduction. [Sec. 408\(d\)\(8\)\(C\)](#). Therefore, a "quid pro quo" transfer is not permitted. The IRA charitable deduction may not be used to purchase a banquet table for a donor, family and friends at the annual charitable auction. Similarly, the gift may not be used to qualify for preferential seating at athletic events or other types of "quid pro quo" gifts.

IRA Rollover Qualifies for RMD

Each year, IRA owners age 72 and older must take a required minimum distribution (RMD). The RMD in nearly all cases is calculated using the Uniform Table. Under the Uniform Table, distributions generally commence at age 72 at approximately 3.9% and increase each year based on the age of the IRA owner.

The required distribution is calculated by determining the expectancy under the Uniform Table, the IRA fair market value on December 31 of the previous year and multiplying a fraction of one divided by the applicable expectancy times this fair market value. The RMD must be taken by December 31 each year.

The vast majority of IRA owners with larger balances take the RMD during the months of October, November and December. Because many individuals with larger IRAs do not require IRA funds immediately for living expenses, by delaying an RMD until the end of the year they benefit from additional tax-free growth in the IRA.

Fortunately, the IRA charitable rollover will qualify for the donor's RMD. The Congressional Joint Committee on Taxation Technical Explanation of PPA 2006 (JCX-38-06) states on page 266, "Qualified charitable distributions are taken into account for purposes of the minimum distribution rules applicable to traditional IRAs to the same extent the distribution would have been taken into account under such rules had the distribution not been directly distributed under the provision."

Since most IRA owners take the RMD during the 4th calendar quarter of each year, they are likely to contact advisors to discuss the benefits of receiving the full RMD or giving part or all of it to charity. By transferring part or all of their RMD to charity, they will have a lower taxable income. This could both simplify their tax return and reduce income taxes.

For purposes of both the RMD and the qualified charitable distribution up to \$100,000, all donor's IRAs may be treated as one IRA. A donor may make the RMD or \$100,000 charitable distribution from any IRA.

IRA Charitable Rollover Potentially Reduced

If an individual makes contributions to a traditional IRA after age 70", the \$100,000 per year qualified charitable distribution (QCD) limit is reduced by the amount of the deductible IRA contributions after that age. The IRA contribution amount is cumulative and specific calculations

will eventually be published in IRS Regulations. QCD gifts in excess of post age 70" traditional IRA cumulative contributions will be included in income and deductible if the individual itemizes deductions. It is probable that most donors either will not have earned income after age 70", will have total income over the IRA phaseout limits (and may not fund an IRA) or may choose to make Roth IRA contributions.

Example 4.6.8A IRA Charitable Rollover Reduction

Matthew Jones is a faithful supporter of Favorite Charity. He loves life and enjoys his job. Matthew has earned income and would like to continue contributing to his IRA. He makes a deductible contribution of \$5,000 at age 71 to his IRA. By the time Matthew is 72, he must start taking his required minimum distributions (RMDs). His IRS balance is approximately \$500,000 IRA and his RMD is \$20,000. Matthew decides that he would like to make a qualified charitable distribution (QCD) from his IRA to his favorite charity in the full amount of his RMD. Matthew directs his IRA custodian to make a qualified charitable distribution to Favorite Charity in the amount of \$20,000. Under the SECURE Act, Matthew's QCD will be partially tax-free and partially a taxable distribution. Because Matthew contributed to his IRA post age 70", his QCD at age 72 is reduced by the value of his deductible contribution to his IRA. Matthew's QCD amount will be \$15,000, because that is the excess of his \$5,000 deductible IRA contribution. The \$15,000 value of the QCD will not be taxable to Matthew and will not generate a tax deduction. The \$5,000 value of Matthew's deductible IRA contribution will be treated as taxable income and will create a charitable tax deduction. When IRA custodian sends Matthew a Form 1099 with a \$20,000 IRA distribution, Matthew's tax preparer completed his Form 1040. The \$20,000 IRA distribution was reported on Line 4a and the taxable portion of \$5,000 was reported on Line 4b. (Note: the IRS may change the line numbers in future years on Form 1040, but the reporting method will be as indicated.)

Editors Note: Final regulations from the IRS are expected to clarify this new treatment of QCDs under the SECURE Act.

IRA Custodians and Qualified Charitable Distributions (QCDs)

IRA custodians generally have IRA distribution forms that may be obtained by mail or downloaded from their websites. In order to obtain an IRA distribution, many owners will download the distribution form and select the type of IRA distribution. Since there are a number of options for individuals to take distributions at given ages and under various exceptions, the distribution forms typically already have three to six options that may be selected.

It is anticipated that IRA custodians will add the IRA charitable rollover to the other distribution categories. In this case, an IRA owner will select the IRA charitable rollover, designate the charity by legal name, city and state, and enter the amount of the rollover. The IRA custodian will then make the transfer. It is uncertain whether or not IRA custodians will determine that the designated charity is qualified under the applicable rules for the IRA rollover.

IRA custodians have asked Treasury whether or not they are required to exercise due diligence to determine that the charity qualifies for an IRA rollover. Supporting organizations, donor advised funds of public charities and donor-benefit gifts are not qualified for the IRA rollover. [Notice 2007-7](#) indicates that the IRA custodian may rely upon "reasonable representations made by the IRA owner." As a result, the distribution is not subject to withholding and the IRA owner is at risk with respect to a potential nonqualified transfer.

IRA Donor Actions

IRA owners typically contact their IRA custodian during the 4th quarter of each year and specify the amount of their IRA distribution. Most IRA owners with larger IRAs specify an amount equal to the RMD based on their age, their IRA balance the previous December 31 and the Uniform Table rules. If an IRA owner over 70½ desires to make an IRA charitable rollover, it will be necessary to download the applicable form with the addition of the charitable IRA rollover or obtain an IRA charitable rollover form by mail from the IRA custodian.

If the IRA custodian does not have a specific form, the IRA owner may send a letter to the IRA custodian similar to the following:

SAMPLE - IRA CUSTODIAN INSTRUCTION LETTER

(Sent from Donor to Custodian Requesting IRA Rollover)

[DATE]

Subject: Request to Initiate IRA Charitable Qualified Distribution

Dear IRA Custodian,

Federal law permits the account holder of an IRA or Roth IRA who is 70 1/2 or older to make a Qualified Charitable Distribution ("QCD") directly from their IRA/Roth IRA to a qualified public charity.

As the owner of IRA Account # _____ that is in the custody of your organization, I request that you make the following QCD(s) to the following organization(s):

1. \$ _____ to [Name of Charity] with an address of [Address of Charity] with the following Tax ID Number: [Insert Charity's Tax ID Number]

2. \$ _____ to [Name of Charity] with an address of [Address of Charity] with the following Tax ID Number: [Insert Charity's Tax ID Number]

It is my intention that the above listed gift(s) be treated as a QCD and that the same be used to

satisfy, in whole or in part, my Required Minimum Distribution (RMD) in the year of transfer, if applicable.

This letter is sufficient authorization for you to make the QCD gift(s) listed above. However, if you require any further documents, please forward those to me for my signature.

Cordially yours,

IRA Owner

After the IRA owner has the appropriate form as required by the IRA custodian, he or she will need to specify the amount of the charitable IRA rollover (not to exceed \$100,000). Since the limit is for "a taxpayer," a married couple could each give up to \$100,000 from two separate IRA accounts. Even in community property states, the \$100,000 limit will apply to each account.

The IRA distribution form should, at a minimum, require the legal name, city and state of the charity. Since the charity must be a public charity and not a supporting organization, if the donor or his or her advisor are uncertain, contact should be made with the charity to make certain that it is a qualified public charity and not a supporting organization.

Most IRA custodians transfer IRA rollover funds by check or electronic transfer directly to the charity. However, some IRA custodians issue a check payable to the charity, but send the check to the donor for forwarding to the charity. This transaction will still qualify under [Sec. 408\(d\)\(8\)](#) as an IRA rollover if the check is issued by the IRA custodian, made payable to the charity and the owner delivers the check prior to December 31 of the applicable year. Delivery may be made by physical transfer to an agent for the charity or by placing the custodian issued check in the U. S. mail by December 31 of the appropriate year. Different rules apply if the donor has check writing privileges on the IRA account, as is becoming more popular. If the donor has an IRA checkbook and writes a check to charity, the funds must clear in the year of the check's issuance.

A charitable organization may also offer a specimen letter for donors to sign to notify the charity of an IRA rollover gift. This example letter may be modified by the charitable organization and provided to donors so they can inform the charity and receive their contemporaneous written acknowledgement.

SAMPLE - DONOR NOTICE TO CHARITY RE IRA ROLLOVER

(Sent from Donor Notifying Charity that Gift Will be Coming)

[DATE]

[Name of Charity]
[Office of Gift Planning]
Attn: [Name of Gift Officer]
[Charity Street Address]
[City, State, Zip Code]

Subject: IRA Rollover Gift for [Insert Year]

Dear [Name of Gift Officer]:

I am pleased to inform you that I have directed the custodian of my Individual Retirement Account ("IRA") to make a qualified charitable distribution from my IRA to your organization. The information concerning my IRA and my gift are described below.

IRA Plan Trustee/Administrator Name: _____
Account Number: _____
Distribution Amount: _____
Comments: _____

It is my intention that: (1) this gift from IRA comply with the "qualified charitable distribution" requirements of Section 408(d)(8) of the Internal Revenue Code; (2) that this gift will be used to satisfy all or part of my annual required minimum distribution; and (3) that I will not be able to claim a charitable income tax deduction for my IRA gift.

When you receive the distribution from the trustee/administrator of my IRA, please send me a contemporaneous written acknowledgement that includes the following: (1) information about the amount of my gift; (2) a statement confirming that no goods or services were transferred to me in consideration for this gift; and (3) that indicates that my gift will not be placed in a donor advised fund or supporting organization.

If you have any questions concerning my gift or this letter, please let me know.

Sincerely,

Donor's Signature: _____ Date: _____
Printed Name: _____
Address: _____
City: _____ State: _____ Zip Code: _____
Phone: _____ Email: _____

SAMPLE - CHARITY IRA ROLLOVER ACKNOWLEDGMENT LETTER

(Sent from Charity to Donor After Gift Is Received)

[DATE]

[Name of Donor(s)]
[Charity Street Address]
[City, State, Zip Code]

Subject: IRA Rollover Gift for [Insert Year]

Dear [Name of IRA Rollover Gift Donors]:

Thank you for your IRA Charitable Rollover gift. An IRA rollover gift may comply with the "Qualified Charitable Distribution (QCD)" requirements of Section 408(d)(8) of the Internal Revenue Code.

Your QCD gift, in the amount of \$_____, was transferred directly from your IRA custodian [Name of Custodian] located in [City, State of Custodian].

Please accept this letter as a contemporaneous written acknowledgement of the following: (1) no goods or services were provided in exchange for your QCD; (2) our organization is a qualified public charity and therefore we may receive your QCD; and (3) your QCD is a gift to us for general purposes or to a designated fund, and not to a donor advised fund or a supporting organization.

Thank you again for this generous gift through an IRA charitable rollover.

Please feel free to contact me if you have any questions.

Cordially yours,

[Signature of Gift Planner]
[Title of Gift Planner]
[Name of Charity]
[Address of Charity]
[Charity City, State, Zip]

Treasury IRA Rollover Guidelines

In [Notice 2007-7](#), Treasury released guidelines on IRA rollover provisions of the Pension Protection Act of 2006. Section IX of the Notice offers several clarifications on IRA rollovers from custodians to charities.

Under the IRA charitable rollover legislation, IRA owners age 70½ and older may transfer up to

\$100,000 from an IRA directly to a qualified public charity. The transfer is not included in taxable income and qualifies for the IRA owner's RMD.

[Notice 2007-7](#) clarifies specific issues concerning the timing of the transfer, transfers by husbands and wives, qualifications of the charitable recipient, acknowledgements by charities and fulfillment of pledges with IRA gifts.

IRA Rollovers To Pay Pledges – Because the IRA funds are owned by the IRA owner, they may be used to fulfill a legally-binding pledge. The transfer from the IRA owner to the charity is treated as a receipt by the owner under [Sec. 4975\(d\)\(9\)](#) and therefore the IRA rollover is not a prohibited transaction.

IRA Owner Delivers Check – Most IRA custodians transfer IRA rollover funds by check or electronic transfer directly to the charity. However, some IRA custodians issue a check payable to the charity, but send the check to the donor for forwarding to the charity. This transaction will still qualify under [Sec. 408\(d\)\(8\)\(A\)](#) as an IRA rollover if the check is issued by the IRA custodian, made payable to the charity and the owner delivers the check prior to December 31 of the applicable year. Delivery may be made by physical transfer to an agent for the charity or by placing the check in the U. S. mail by December 31 of the appropriate year. Different rules apply if the donor has check writing privileges on the IRA account, as is becoming more popular. If the donor has an IRA checkbook and writes a check to charity, the funds must clear in the year of the check's issuance.

IRA Custodian May Rely on IRA Owner Representation – IRA custodians have inquired whether or not they are required to exercise due diligence to determine that the charity qualifies for an IRA rollover. Supporting organizations, donor advised funds of public charities and donor-benefit gifts are not qualified. The Notice indicates that the IRA custodian may rely upon "reasonable representations made by the IRA owner." As a result, the distribution is not subject to withholding and the IRA owner is at risk with respect to a potential nonqualified transfer.

IRA Rollover Not Qualified – If the transfer is not qualified because the IRA owner is less than age 70½, the transfer is to a supporting organization or a donor advised fund or there is a donor-benefit gift, then the distribution is taxable to the owner under [Sec. 408](#). However, the owner will qualify for a charitable deduction under [Sec. 170](#) if the transfer is to a qualified charitable organization. With the 60% of AGI limit for charitable gifts of cash to public charities, it is possible that the gift may not be fully deductible in the year of the transfer. In that case, the excess may be carried forward for up to five years.

Charitable Deduction and Reporting – The IRA rollover is not included in taxable income and consequently there is no income tax deduction. However, the donor must still comply with substantiation requirements under [Sec. 170\(f\)\(8\)](#). The recipient charity should issue an acknowledgment for the IRA rollover that is similar to a gift receipt. The acknowledgment should include the date of the gift, the name of the IRA custodian, the amount of the gift, that the gift is a qualified charitable distribution under [Sec. 408\(d\)\(8\)\(A\)](#), and state that no goods or services were provided in exchange for the gift. Finally, the acknowledgment should state that the charitable organization has received the gift for general purposes or a field of interest fund, that it qualifies as a [Sec. 170\(b\)\(1\)\(A\)](#) public charity, and the gift is not to a [Sec. 509\(a\)\(3\)](#) supporting organization or [Sec. 4966\(d\)\(2\)](#) DAF.

Ongoing SEP-IRA Rollover – IRA rollovers are permitted generally for most IRAs. There is an exception for the SEP-IRA or a SIMPLE IRA. If the employer has made a contribution to these accounts during the taxable year, a charitable IRA rollover is not permitted. However, if an employee has retired and the employer is no longer making contributions to the SEP-IRA, then it qualifies for the [Sec. 408\(d\)\(8\)\(A\)](#) IRA rollover.

Married Couple IRA Rollovers – The IRA rollover is limited to \$100,000 per IRA owner each year. A married couple may each transfer up to \$100,000 from his or her personal IRA account to a qualified charity. If a married couple has substantial IRA accounts, then up to \$200,000 per year may qualify for IRA rollovers.

IRA Rollover Reporting

Under Treasury instructions for IRS Form 1040, the IRA custodian will send a Form 1099 to the donor and report the full qualified charitable distribution amount. The donor will report the total distribution on Line 4a of Form 1040, (the line numbers on Form 1040 may change in future years) but will report only the taxable distribution on Line 4b. If the qualified charitable distribution is the only IRA distribution because it fulfills the RMD, then the number on Line 4b will be zero.

Example 4.6.8B IRA Rollover

Mary Jones is a faithful supporter of Favorite Charity. She has a \$200,000 IRA and her RMD is 5%, or \$10,000. Because she has substantial other income, Mary directs her IRA custodian to make a qualified charitable distribution to Favorite Charity in the amount of \$10,000. Mary informs Favorite Charity and receives a contemporaneous written acknowledgment of her IRA gift. There was no quid pro quo involved and the gift was not to a DAF or SO. When IRA custodian sent Mary a Form 1099 with a \$10,000 IRA distribution, Mary's tax preparer completed her Form 1040. The \$10,000 IRA distribution was reported on Line 4a and the taxable portion of zero was reported on Line 4b. Because the full RMD was transferred to Favorite Charity, Mary paid no tax on her IRA RMD. (Note: the IRS may change the line numbers in future years on Form 1040, but the reporting method will be as indicated.)

State Tax Impact

There are at least three different categories of states with respect to the charitable IRA rollover. First, some states do not presently provide for charitable income tax deductions. In Indiana, Ohio, Massachusetts, Connecticut, Illinois, Pennsylvania, and Wisconsin, there are no state charitable itemized deductions. Therefore, donors will effectively benefit from the IRA rollover by reducing their state taxable income and reducing their state taxes. Both these donors and federal non-itemizer donors will benefit directly by making charitable gifts from their IRAs.

Second, some states permit charitable deductions, but use the federal adjusted gross income as an initial reference number for determining state tax. In this circumstance, the reduced adjusted gross income as a result of the charitable IRA rollover will also reduce state taxes. For example, the California Franchise Tax Board website states that "Taxpayers may now exclude up to \$100,000 in 'qualified charitable distributions' from their adjusted gross income for both federal and state purposes. In order to qualify, the distribution must be made directly by the IRA trustee to a charitable organization after the taxpayer reaches age 70 and one-half."

Finally, there may be some states in which the state does not recognize the IRA charitable rollover and requires IRA reporting for state income tax purposes. In those states, the distribution to charity would normally be deductible on state income tax returns, but may be subject to state limits, such as the 60% of adjusted gross income limit for charitable gifts in one year. New Jersey does not recognize the IRA rollover, but because it also does not permit most charitable deductions, the IRA rollover will increase state income tax.

Rollovers from Other Qualified Plans to IRAs

IRA rollovers are generally permitted for most IRAs. There is an exception that does not permit an IRA rollover from a SEP-IRA or a SIMPLE IRA if the employer has made a contribution during the taxable year. However, if an employee has retired and the employer is no longer making contributions to the SEP-IRA, then it qualifies for the [Sec. 408\(d\)\(8\)](#) IRA rollover. See [Notice 2007-7](#).

Approximately one-third of all qualified plan assets are held in IRAs that qualify for the IRA charitable rollover. However, substantial assets are held in [401\(k\)](#), [403\(b\)](#), SEP-IRA and other plans. Under federal tax rules, these and other qualified plans generally may be rolled directly over from the current plan custodian to an IRA custodian. If there is a limitation on rollovers, it is usually due to provisions in the plan document. The plan administrator will upon request disclose any rollover-to-an-IRA limitations.

In [Reg. 1.401\(a\)\(9\)-7](#) Rollovers and Transfers, Treasury explains how to rollover from another qualified plan to an IRA. In Question-3 the "transfer of an amount of an employee's benefit from one plan" must follow "special rules for satisfying [Sec. 401\(a\)\(9\)](#)." In Answer-3 the "transferor plan must determine the amount of the required minimum distribution" and comply "by segregating the amount which must be distributed from the employee's benefit and not transferring that amount. Such amount may be retained by the transferor plan and must be distributed on or before the date required under [Sec. 401\(a\)\(9\)](#)."

Therefore, before the rollover to the IRA, the retirement plan benefit owner will calculate and take the RMD for that year. Following the RMD payout, the qualified plan is rolled over to the IRA. After the rollover to the IRA, he or she may still make an IRA charitable rollover up to \$100,000, but it will not be part of the RMD for that year. In the following year, the IRA owner may make IRA charitable rollovers that will qualify as part or all of the RMD.

IRA Charitable Rollover – Donor Profiles

There are five donor profiles for IRA rollover gifts. The first are the convenience donors who find it a very simple and easy method for an end of year gift. The second is the generous donor, who wants to give past the 60% of AGI limit. The third is a major donor. This person may be a board member or trustee who is looking for a favorable opportunity to make a major gift. Fourth, the Social Security recipient may reduce taxes with an IRA rollover gift. Finally, a standard deduction donor will benefit from a direct IRA to charity gift.

Convenience Donor

The majority of IRA owners delay taking IRA withdrawals until November or December each year. As the individual approaches the end of the year, he or she will need to make decisions. If an IRA owner is actively making gifts to charity during the year, then it may occur to him or her that this is a good opportunity to make a gift.

Convenience donors will contact their IRA custodians to arrange for the IRA charitable rollover. There is no charitable income tax deduction, but also no inclusion in federal taxable income. It is simply a very convenient way to help their favorite charity. Since the convenience donor may be a person with a small or medium value in the IRA, this probably will be the largest numeric category of donors.

Generous Donor

Some very generous individuals are already giving to the 60% of adjusted gross income level. This is the maximum permissible level for cash gifts each year. The excess gifts may be carried forward and deducted over the following five years. Some of these generous donors may also have a large IRA. Since they frequently live at a moderate level in proportion to their income and assets, they may not actually need all of their IRA.

If there is a desire to give more, they can give to 60% of adjusted gross income from their regular assets and then make "over and above" gifts from their IRA. Some generous donors may in effect give 100% or more of income per year through this method. Since the IRA is not included in taxable income, it will have no impact on their regular income and other charitable gifts.

Major Donor

Board members, trustees and other major donors frequently are asked to make gifts of \$100,000 or more. As the rules have continually become more favorable for IRAs and the required withdrawals have been reduced, large IRAs will continue to grow. Over longer periods of time, there are occasional market dips and drops, but the longer-term trend is positive and large IRAs will continue to increase in value.

For many professionals and business owners, the IRA may even become the vast majority of the estate. They have a need to do some "asset balancing" or there may be major future income tax

problems. Therefore, it may be desirable for the major donor to give \$100,000 per year to charity from his or her IRA. This has the advantage of "balancing" the estate assets.

In addition, there may be income tax benefits. If the donor were to take the IRA into his or her own personal income, there are several types of exemptions that are phased out at higher income levels. Thus, it may actually be preferable to make the gift directly from the IRA rather than making a charitable gift from regular income.

Social Security Donor

Social Security is subject to two levels of taxation. For donors who have income in excess of the first level, 50% of Social Security is taxed. For donors with income in excess of the second level, up to 85% of Social Security income may be subject to tax.

Withdrawing an amount from an IRA will potentially cause the recipient's income to increase from the 50% taxable bracket to the 85% Social Security taxable bracket. Even though the withdrawn amount is given to charity and deducted, there still is taxation at the donor's income bracket. Thus, by making the transfer directly to charity, many Social Security recipients will save substantial taxes.

Standard Deduction Donor

Many seniors do not have a mortgage and their medical deductions are less than 7.5% of adjusted gross income. Thus, they may not have a sufficient level of deductions to itemize and choose instead to use the standard deduction.

If this donor withdraws \$1,000 from his or her IRA and then gives it to charity, there is \$1,000 of increased income with no offsetting charitable deduction, since the standard deduction is taken. Therefore, it will be preferable for all donors taking a standard deduction to make IRA gifts directly to charity and avoid the additional income tax otherwise payable.

IRA Gift Opportunities

The \$100,000 IRA charitable gifts provision opens up many gift opportunities. Charities and allied professionals will want to explore all of these gift benefits with donors and clients. Everyone will appreciate the flexibility of IRA charitable gifts. As the age wave meets the IRA wave, there are major charitable giving opportunities ahead.

Case Studies on IRA Charitable Rollovers

[Teacher Mary and the IRA Rollover Lesson:](#) Mary Smith is a retired teacher. When she retired, she was given the option to rollover her retirement plan into an IRA. Since she wanted to have control over the investment of the IRA, she decided to rollover her retirement plan into a self-directed IRA.

[Bruce - The Generous IRA Donor:](#) Bruce retired several years ago, but he wanted to be active during his retirement years. So Bruce started volunteering with an organization that helps needy

young children.

[Ralph - The Major IRA Donor:](#) Ralph is a retired investment advisor. He watched his IRA blossom and grow through good investments. It now was the largest asset in his estate. Based on his age of 79 and the increased value, his required distribution this year was nearly \$100,000!

[Gary - The Social Security IRA Rollover Donor:](#) Gary is a retired manufacturing worker with a substantial IRA. He has some retirement income from CDs and dividends from stocks. With his regular retirement income, his Social Security payments are taxable at 50%.

[Judy - Standard Deduction and the IRA Rollover:](#) Judy was a retired nurse and a volunteer for her favorite charity. During her working years Judy had never enjoyed a large salary.

Related Topics on IRA Charitable Rollovers

[4.6.1 IRA Owner/Spouse Distributions:](#) IRAs and pension plans are very popular. Nearly all Americans have one or more of these "qualified plans." According to Federal Reserve data, over \$3 trillion is in IRAs, and total pension plans now exceed \$10 trillion in value.

[4.6.3 IRA Bequests/Loans to Charity:](#) Nearly all IRAs are funded with pre-tax dollars. Many IRAs result from the rollover of other qualified plans at retirement. Payouts from these qualified plans would be ordinary income, and the participant rolls the plan over into an IRA to defer recognition of the income. Thus, the payment to IRA beneficiaries will generally produce ordinary income that is subject to taxation.

[4.6.4 IRA to Trust for Surviving Spouse:](#) Many estate plans include creation of a bypass trust equal to the exemption amount at date of death, with the balance of the estate transferred to a marital deduction trust for the surviving spouse. The most popular spousal trust is a qualified terminable interest property (QTIP) trust. If the IRA or other retirement plan is transferred to a QTIP trust, the distributions will be based on the Single Life Table. This will result in much larger distributions and greater income tax than would be applicable if the IRA were rolled over by the spouse and he or she could use the Uniform Lifetime Table.

[4.6.5 IRA to Unitrust for Children:](#) There are two basic methods for transferring an IRA to a unitrust for children. One option is to transfer the IRA to a term of years trust for the children. The second option is to transfer the IRA to a trust that will pay the children for their lives.

[Jankelovits:](#) In *Jacob Jankelovits et ux. v. Commissioner*; TC Memo. 2008-285; No. 24615-06 (22 Dec. 2008), the Tax Court determined that a failed IRA Rollover would result in full taxation.