American Endowment Foundation

IRA Charitable Rollover

The IRA Charitable Rollover can be an attractive and creative strategy for donors to make charitable contributions. On December 18, 2015, the President signed into law the PATH Act of 2015 which renewed and made permanent the IRA charitable rollover provision that originally began in 2006.

The IRA Charitable Rollover allows the following:

- Clients and eligible spouses can make an IRA charitable rollover (up to $100,000) to a qualified charity and not have that transfer count towards their taxable income in the same year that they made the charitable gift.
- Charitable rollover amounts could count toward the client's required minimum distribution.

Please note that if a donor makes a direct distribution from their IRA to a charity where those funds were put in a donor advised fund, the donor is still required to claim those monies as income and they cannot be characterized as a charitable rollover.

How can American Endowment Foundation (AEF) help?

While the IRS has specifically excluded donor advised funds from the IRA Charitable Rollover provision, there are several strategies that we have implemented previously for many clients:

- The donor can make distributions from the IRA in the traditional way, recognize the distribution as income, contribute those dollars to a donor advised fund at American Endowment Foundation and calculate the charitable deduction in the normal way. The charitable deduction tends to offset the increase in taxes resulting from the traditional distribution, subject to annual Adjusted Gross Income (AGI) limits.
- American Endowment Foundation offers other fund types that do qualify for an IRA Charitable Rollover such as:
    - **Scholarship Fund:** A donor can establish a scholarship program at a school of their choice through AEF. The donor can work with the school to determine the criteria the school will use in screening and selecting scholarship applicants. According to a predetermined schedule, AEF makes a specific grant distribution to the school which, in turn, awards scholarship grants to qualifying applicants.
    - **Designated Fund:** A donor can create a designated fund at AEF to support a specific charitable cause of their choice. The specific charity receives an exact dollar grant at certain dates established at the time that the designated fund is created.

Of interest to financial advisors, they can continue to manage the value of their client's assets after they engage in an IRA Charitable Rollover. Those assets can be managed at all levels on the advisor's familiar platform.

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Who could benefit from an IRA charitable rollover?

Those who are the age of 70½ -
Shortly after individuals reach the age of 70½, they are required to take taxable minimum distributions (RMD) from their traditional IRA. Amounts taken through the IRA Charitable Rollover provisions count toward these Required Minimum Distributions (RMD), thus reducing taxable income.

If charitable deductions are not itemized -
IRA rollovers especially benefit the nearly two-thirds of Americans who do not itemize deductions and therefore do not receive a tax benefit for their charitable contributions.

If charitable gifts already exceed 60% / 30% limits of expected adjusted gross income for the year-
This allows the donor to skip by these limits and give more.

If Social Security income is taxable -
By avoiding the recognition of taxable income, the donor may have less of their Social Security income subject to income tax.

Future estate tax implications -
The combination of estate and income taxes on IRA assets can produce an effective tax rate of up to 80%. The Charitable IRA Rollover exclusion gives individuals the opportunity to remove up to $100,000 of these assets each qualifying year from their estate with no tax consequences. Spouses can rollover up to $100,000 as well if qualified.

If a Roth IRA is less than 5 years old -
Withdrawals from a Roth IRA that is less than 5 years old are taxable. However, the IRA Charitable Rollover allows such distributions to be tax-free.

If donor is a resident of Ohio, Indiana, Michigan, New Jersey, Massachusetts or West Virginia -
These states provide no income tax break for charitable contributions. Consequently, such donors will save taxes by giving from their IRA rather than from their checking account.

The Rules for Using an IRA Charitable Rollover:

- Individuals have to be 70½ years old or older.
- Rollover cannot not exceed $100,000. Amounts more than $100,000 where added to taxable income.
- The rollover had to be completed before December 31 of the year in which the contribution was to count against taxable income.
- Rollovers could only be made from traditional IRAs. Rollovers from 403(b) plans, 401(k) plans, pension plans, and other retirement plans do not qualify. Funds had to come DIRECTLY from the plan administrator to the charity.
- IRA charitable rollovers could not be made to private foundations, supporting organizations, or donor advised funds.