**THE IRA CHARITABLE ROLLOVER, EXPLAINED**

by Gordon Fischer

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I. IRA Charitable Rollover – the essentials

The IRA Charitable Rollover allows individuals aged 70½ and older to donate up to $100,000 from their IRAs directly to charities without having to count the distributions as taxable income. This gift transfer is called a “qualified charitable distribution” or “QCD.”

To be a valid QCD, there are two threshold requirements. First, the donor must be age 70½ or older. Second, the retirement plan account must be an IRA.

II. IRA Charitable Rollover – basic FAQs

*Who?*

Age requirement. Taxpayers age 70½ and older are required to make annual distributions from IRAs that are then included in the taxpayers’ adjusted gross income (AGI) and subject to taxes. The IRA Charitable Rollover permits those taxpayers to make donations directly to charitable organizations from their IRAs without counting them as part of their AGI and, consequently, without paying taxes on them.

The donor can be either an IRA participant donating from his or her own IRA, or a beneficiary donating from an inherited IRA.

Again, the IRA Charitable Rollover requires the donor (whether owner or beneficiary) to be age 70½ or older. This is based on the *year* the participant reaches age 70½, *not* the *day* he or she reaches that age.

*What?*

IRAs only. QCD can only be made from traditional IRAs or Roth IRAs. Charitable donations from 403(b) plans, 401(k) plans, pension plans, and other retirement plans are ineligible for the tax-free treatment.

Annual cap. A donor’s total combined charitable IRA rollover contributions cannot exceed $100,000 in any one year. The limit is per IRA owner, not per IRA. Also, this amount is not portable between spouses.

*When?*

The IRA Charitable Rollover is permanent law.

*Where?*

Eligible charities. Charitable contributions from an IRA must go directly to a public charity that is not a supporting organization. Contributions to donor-advised funds and private foundations, except in narrow circumstances, do not qualify for tax-free IRA rollover contributions.

Allow me to emphasize QCD must go *directly* to charity. A donor can’t withdraw the money, and then give it to charity – rather, the IRA administrator must send QCD straight to the charity.

III. IRA Charitable Rollover: digging deeper

Further FAQs:

Q. What about gifts to a donor from a charity, in return for QCD?

Donors cannot receive any goods or services in return for QCD in order to qualify for tax-free treatment. As one philanthropist exclaimed, “Why would you want to (potentially) mess up a $100,000 tax-free donation by getting a $25 book?”

Q. What substantiation does the IRS require?

In order to benefit from the tax-free treatment, donors must obtain written receipt of each IRA rollover contribution from each recipient charity.

Q. What are the specific tax advantages of QCD?

For Iowans who don’t itemize deductions, and so thereby don’t get to deduct their charitable contribution, the IRA Charitable Rollover obviously helps.

For Iowans who do itemize, it may also be tax-advantaged. There’s a brilliant job of doing the math (although this is a few year old) by Ashlea Ebeling in *Forbes*. Link:

http://www.forbes.com/forbes/2006/1211/003.html

Q. Could QCD fund a split interest gift, like a charitable remainder trust?

No. QCD must be a contribution that would be 100 percent deductible if paid from the owner’s non-IRA assets, so a split-interest gift will not qualify. Therefore, IRA charitable rollover funds generally cannot be made to a charitable remainder trust, pooled income fund, or charitable gift annuity.

Q. Can I still get a charitable deduction along with the IRA Charitable Rollover?

No. Funds re the IRA charitable rollover are excluded from the individual’s gross income for all purposes. Of course, there is no charitable deduction for any IRA charitable rollover funds.

Q. It’s been said, “you should be giving while you’re living so you’re knowing where it’s going.” But are there are potential challenges to charitable giving during lifetime? And how does the IRA charitable rollover affect these challenges?

There are three notable challenges to lifetime giving:

1. Taxpayers who don’t itemize. Most fundamentally, a taxpayer has to itemize to take advantage of the charitable deduction. A taxpayer who uses the “standard deduction,” rather than itemized deductions, of course wouldn’t see any tax benefit from the charitable deduction.

2. AGI percentage limit. The federal income tax charitable deduction is limited to a certain percentage of adjusted gross income. (The percentage is either 30% or 50%, depending on the type of property given and the type of donee charity). There is a five-year carry forward.

3. Pease limitation. The Limitation on Itemized Deductions (known as the “Pease limitation,” after Donald Pease, the Ohio congressman who helped create the law) reduces most itemized deductions by 3 percent of the amount by which AGI exceeds a specified threshold, up to a maximum reduction of 80 percent of itemized deductions. The income thresholds for Pease vary by filing status.

One can readily see these three potential obstacles are simply not at issue with the IRA Charitable Rollover. Again, simply put, a QCD does not increase AGI.

Q. Can the IRA Charitable Rollover fulfill RMD?

Yes. The IRA charitable rollover can fulfill RMDs. So, it’s an excellent way for Iowans over 70½ to both fulfill RMDs and help favorite charities.

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