

Bailout Includes IRA Charitable Giving

Wall Street Journal article by **Anne Tergesen**

If you're age 70½ or older and are charitably inclined, the bailout package that President Bush signed into law in October contains some good news: Uncle Sam is temporarily resurrecting a tax break available to those who make donations from their individual retirement accounts to charity.



Tom Bloom

We mentioned this break in brief several weeks ago and -- based on readers' questions -- decided to discuss it this week in greater detail. What follows is a look at the requirements involved, as well as a warning: Be careful how you transfer the money.

To be eligible, you have to be at least 70½ when you make the donation. You and your spouse can each give up to \$100,000 from your respective accounts this year and next. The money can also come from two other types of retirement accounts -- a SEP or a SIMPLE IRA -- with the condition that you are no longer contributing to those particular accounts, says Ed Slott, an IRA consultant in Rockville Centre, N.Y. Employer-sponsored plans, such as 401(k)s, aren't eligible.

You must give the donation to a public charity; a private foundation, supporting organization or donor-advised fund won't work, says Blanche Lark Christerson, a managing director at Deutsche Bank Private Wealth Management in New York.

The charity has to acknowledge the gift, and you can't receive anything in return -- not so much as a chicken dinner, says Ms. Christerson. Moreover -- and this is critical -- the check must be payable to the charity. If you withdraw money first, you'll get stuck paying income tax on the entire amount.

Under the law, any money you donate to charity from your IRA will count toward the annual withdrawals you're required to take from these accounts after reaching age 70½. (Be aware, though, that if you already took your withdrawal this year, you're out of luck. You can't retroactively claim the tax break, even if you gave some or all of this money to charity.)

If you are able to take advantage of this tax break, you won't get the tax deduction for your gift that you would normally be entitled to. But you are almost sure to come out ahead. To see why, consider what would happen if you were to donate \$1,000 to your alma mater.

If when filling out your tax returns you don't itemize deductions, you'd normally get no tax deduction for the gift. But under the new law, you would receive a nice tax break. That's because under the new law, the charitable donations you make from an IRA don't count toward your taxable income. As a result, a \$1,000 gift would reduce your income by \$1,000. That would save someone in the 25% tax bracket \$250.

If you itemize your deductions, you'll also come out ahead. That's because taxpayers whose adjusted gross incomes exceed certain thresholds lose some of their deductions and personal exemption amounts. By not adding \$1,000 to your income, this gift might help you keep your income below these levels.

"Without this provision, your required minimum distribution may trigger all these other stealth taxes," Mr. Slott says.

A few states, including New Jersey, don't allow residents to take deductions for charitable gifts on their state income-tax returns. Residents of these states would still have to pay state income tax on donations from an IRA, says Michael Steiner, a wealth manager at RegentAtlantic in Morristown, N.J. Residents of these states should realize they "won't get the full tax break," Mr. Steiner says.

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