

Take Advantage of the Charitable IRA Rollover

Questions and Answers for Donors

What is a Charitable IRA Rollover and how was it established?

Charities, Foundations and other 501(c)3 organizations like the Ellsworth College Foundation have been created to solve problems and enrich communities. Recognizing this, lawmakers enacted a provision intended to increase charitable giving through the Pension Protection Act. The act originally allowed taxpayers 70 ½ years of age to make tax-free gifts from traditional IRA and Roth IRA accounts in 2006 and 2007. The law was extended several times and was made a permanent charitable giving provision as a part of the Protecting Americans from Tax Hikes Act of 2015. The signed law made the IRA charitable rollover retroactive to Jan. 1, 2015, and will remain in effect for 2016 and beyond.

How does the IRA Rollover work?

If you are 70 ½ years or older, you are required to make an annual distribution from your IRA accounts. These payments are included in your adjusted gross income (AGI), and you pay taxes on those distributions. The Charitable IRA Rollover permits taxpayers to make donations directly to charitable organizations from the IRA without including or counting the distribution in their AGI. This lessens your annual tax bill by lessening your AGI. **Note:** Iowa residents will still pay state income tax on the distribution, but not federal income tax.

Who Benefits from the IRA Rollover?

- Taxpayers who don't itemize their deductions. They aren't itemizing their charitable gifts and do not receive a tax benefit from their contributions. This giving vehicle doesn't add taxable income to their AGI.
- Itemizing taxpayers who have reached the charitable giving limit. If you are itemizing, you are prohibited from deducting more than 50% of your AGI for the purpose of making charitable donations. IRA donations are excluded from the percentage limit because they are not considered income and allow you to give more than the 50% threshold.
- Taxpayers whose tax deductions decrease as their income increases. Federal tax deductions like dependent and personal exemption deductions and deductions for medical expenses and non-business casualty losses become smaller as your income increases. By making a charitable gift from your IRA, you are managing the amount of income you receive and you may be able to allow yourself to continue to qualify for those deductions.
- Taxpayers who live in states that don't permit tax deductions for charitable donations. Traditionally residents in Indiana, Michigan, New Jersey, Ohio, Massachusetts and West Virginia have paid state income tax on all charitable donations. IRA funded gifts will be excluded from their state income and from state taxes.

When does this opportunity end?

This provision has been signed into law and is now a part of the tax code.

How old do I have to be to take advantage of this opportunity?

You must be 70 ½ years of age when the distribution is made from your IRA account.

Are there any minimum or maximum amounts that I can give through an IRA Rollover?

There are no minimum distributions other than what your plan administrator may have in place. The maximum that can be given thru this vehicle is \$100,000 in a one year timeframe.

What happens if you contribute more than \$100,000 from your IRA to a charity, foundation or other 501 (c)3 organization?

Anything in excess of \$100,000 will be counted in your annual gross income and will be subject to taxation.

What kinds of charities are eligible?

Donations must go directly to a public charity. Except in narrow circumstances, contributions to Supporting Organizations, Donor Advised Funds, and Private Foundations do not qualify. The Ellsworth College Foundation is a 501(c)3 organization classified as a 509(a)1 organization, which allows us to accept these gifts.

What retirement accounts are eligible?

Traditional individual retirement accounts or Roth IRAs are eligible. Contributions from 403(b) and 401(k) plans as well as pension and other retirement plans are not eligible for the tax-free treatment.

Does the IRA Rollover count toward your annual minimum distribution requirements?

Yes, the distribution can count as your minimum distribution.

Who should the payment be made to from the IRA account?

The payment should be made directly to the Foundation or Charity of your choice or it will become a taxable distribution for you.

Can I use the IRA Rollover to pay for my memberships where I receive preferential seating or other benefits?

This is not the appropriate way to fund memberships or purchase your tickets that are affiliated with a membership that supports a team or organization. If you would like to give an outright gift to support an organization of which you are also a member, in addition to those tickets, that would be acceptable. Ineligible benefits include auctions, raffle tickets, fundraising dinners, or any other type of quid-pro-quo transaction.

What documentation do I need?

You must obtain written acknowledgement of receipt. This should include a letter stating the gift was in the form of an IRA transfer and a financial receipt. To minimize the chance that you will misplace one of those two documents and to be more environmentally conscious, the Ellsworth College Foundation provides both forms of documentation on one sheet of paper for all donations made.

What do I need to do to facilitate this type of gift?

You will need to send a written request to your IRA administrator. The Ellsworth College Foundation has a sample letter (*see page 3 of this pdf file*) with blanks that you can fill in. If you write the letter yourself, you need to make sure that you tell your IRA administrator to include who the payment is from, otherwise the charity may not know the distribution is from you. The charity must send a written acknowledgement back to you along with receipt for your records.

Note: *The Ellsworth College Foundation is providing this information only for general educational purposes. Please contact your tax and estate planning professionals for information on how this opportunity may affect you.*

Re: Request for Charitable Distribution from Individual Retirement Account

Date: _____

Dear _____ :

Please accept this letter as my request to make a direct charitable distribution from my Individual Retirement Account # _____ as provided by Section 205 of the Economic Stabilization Act of 2008 and Section 408 (d) (8) of the Internal Revenue Code of 1986, and as made permanent part of tax code by the Protecting Americans from Tax Hikes Act of 2015. The new law made the IRA charitable rollover retroactive to Jan. 1, 2015, and will remain in effect for 2016 and beyond.

Please issue a check in the amount of \$ _____ payable to the following charitable organization:

Ellsworth College Foundation
1100 College Avenue
Iowa Falls, Iowa 50126
Tax ID (42-0926714)

In your transmittal of this gift to the charity, please note my name and address as the donor of record in connection with this transfer. Please copy me on your transmittal of these funds.

It is my intention to have this IRA rollover gift qualify for complete tax exclusion during this 2015 tax year. Therefore it is imperative that this distribution be postmarked no later than December 31, 2015.

If you have any questions or need to contact me, I can be reached at the following telephone number: _____.

Thank you for your speedy attention to this matter.

Sincerely,