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Futures

Spring 2016

A no-nonsense newsletter from The Dayton Foundation for estate planners and financial advisors

"For charitably inclined individuals with significant IRA balances, the Provision creates a planning opportunity by reducing the personal tax impact of the [required minimum distribution].
– Patricia L. Ioas

Tax-free IRA Transfers to Charity Now Permanent Option for Clients

By Patricia L. Ioas, CPA, CMA, Director, Brady Ware & Company

With the passage of the Protecting Americans from Tax Hikes (PATH) Act in December 2015, the annual question that donors and charitable organizations have asked, "Will the IRA Charitable Rollover Provision be extended?" will no longer be necessary. PATH made the Rollover Provision a permanent part of the tax code.

Since the Provision now is permanent, this is a good time to review client information to identify individuals who may want to use their Individual Retirement Account (IRA) as a charitable giving vehicle.


Patricia L. Ioas

What the Charitable Rollover Provision Means for Clients

The Charitable Rollover Provision allows individuals age 70½ or older to donate annually up to $100,000 from their IRA to any 501(c)(3) charitable organization without treating the distribution as taxable income. Married couples with two separate IRAs may take up to $200,000 tax free each year. The distribution satisfies the required minimum distribution (RMD), however clients may not claim a charitable contribution on their tax return for the amount of the IRA rollover since this contribution is excluded from their gross income. Although donations also cannot be made to a donor-advised fund, supporting organization or private foundation, The Dayton Foundation, as a qualified public charity, is a great resource. They can help clients execute the transfer to a new or existing scholarship fund, designated fund, field-of-interest fund or unrestricted fund.

Prior to the Provision's introduction, a client would pay state income tax, if applicable, on the IRA distribution and possibly federal income tax on a portion of the distribution, if the client was subject to a limitation on the deductible amount of the donation on his or her federal tax return. For charitably inclined individuals with significant IRA balances, the Provision creates a planning opportunity by reducing the personal tax impact of the RMD. The maximum annual donation is $100,000, however there is no requirement that states the entire amount must be made in one transfer or go to a single qualified charitable organization. Clients can elect amounts less than $100,000 to donate to charities in a year, but no more than $100,000 will be excluded from income as an IRA charitable distribution.

PATH has proven to be advantageous for clients who have significant annual RMDs but don't have an immediate need for the distributions. It also allows us, as advisors, to use the Provision to help our clients minimize tax burdens, while providing financial resources to charitable organizations. This is a win-win for clients and charities.

Case Example

George, age 82, has $3,000,000 in his IRA and a required annual minimum distribution of $300,000. He has designated a charitable

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I Believe!

donor families who have stepped forward to become the 2015-2016 "I Believe!" Partners of The Dayton Foundation. Their commitment underwrites a full year of Dayton Foundation publications, thereby freeing resources for the Foundation's other community work.

"I Believe!" Partners: Rebecca H. Appenzeller & Craig J. Brown, Debbie A. & Mike J. McGraw, Shirley A. & Lawrence E. Porter, Heapy Engineering, and Beth W. & Alan B. Schaeffer

Tax-free IRA Transfers

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organization as his IRA beneficiary, as well as his estate beneficiary, but doesn't make annual gifts. Assuming there is no further appreciation on his account, if George withdraws $300,000 a year at a 45% tax rate, he will have $1,650,000 available for charity after 10 years (10 years at $165,000). Instead, if George donates $100,000 out of his required minimum distribution to establish a fund through The Dayton Foundation that designates his favorite charity as the beneficiary, he will have $1,100,000 available for charity at the end of 10 years ($200,000 times 55% equals $110,000 for 10 years). He also will have donated a separate $1,000,000 directly to charity ($100,000 annually). At the end of 10 years, he has been able to provide his designated charity with $2,100,000, instead of just $1,650,000 had he declined the direct IRA gift.

Even if George does make annual gifts, making them directly out of his IRA can be more tax efficient. For example, the state in which George resides uses adjusted gross income as the starting point for determining state taxable income. Reducing George's adjusted gross income by the charitable donation will reduce George's state income tax. Other examples where a lower adjusted gross income can possibly save money would be if George has significant medical deductions, miscellaneous itemized deductions or passive activity losses or has a liability for the net investment income tax.

In Conclusion

For charitably minded clients with significant IRA RMDs, utilization of the now permanent Charitable Rollover Provision should be reviewed annually. In many cases, it will save significant tax dollars and increase the amount available to gift to a charitable organization. The Dayton Foundation staff is happy to work with donors and their advisors to find the best option to meet their charitable goals. ❧

Note: Solutions will differ from case to case. The above does not constitute professional financial or tax advice.

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Save These Dates

Free Advisor Seminar

The Dayton Foundation, University of Dayton and Wright State University are cosponsoring a free advisor seminar, conducted through the Partnership for Philanthropic Planning of Greater Dayton, on Wednesday, June 1, from 2:30 to 5 p.m. Marcus S. Owens, a partner in the Washington, D.C., office of the law firm Loeb & Loeb, LLP, will present "What to Do if the IRS Comes Knocking: the Perspectives of a Former Director." CLE, CEU and CFP credits are pending. Registration information will be sent to you soon.

The Dayton Foundation's 2016 Meeting Celebration!

Mark your calendars for 5 to 8 p.m., Thursday, September 22, for the best party in Dayton and the Foundation's largest event – the 2016 Meeting Celebration of The Dayton Foundation at the Benjamin and Marian Schuster Performing Arts Center. The event will include an exciting program in the Mead Theatre, followed by live music and a Wine and Light Supper Social in the Wintergarden. Platinum-level sponsors for this year's event include Bieser, Greer & Landis, LLP, J.P. Morgan and KeyBank. Watch for more details this summer.

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