

IN THE SPIRIT OF THE SEASON...

By Chris Sly-Prochnow

'Tis better to give than to receive"...an extension of the Pension Protection Act of 2006 was passed recently and **direct distributions from an IRA can be made to certain charities without it counting as taxable income**. In the past the IRA owner had to recognize the distribution from the IRA as taxable income and then received a charitable deduction for the contribution to the charity. Under this law, while the IRA distribution will not count as income under the new provisions, there will be no charitable deduction allowed either. This provision extends to tax years 2008 and 2009.

What are the requirements?

- ∞ IRA owner must be age 70 ½ or older;
- ∞ Gift must be to an Exempt Public Charity (Private Foundations, Supporting Organizations and Donor Advised Funds don't qualify—many university and medical center foundation are supporting organizations, so beware);
- ∞ The limit is \$100,000;
- ∞ The transfer must be made by the IRA Trustee directly to the charity; and,
- ∞ The gift must have been otherwise includible as ordinary income to the IRA owner.

Where is it useful?

- ∞ Provides a simple way to make year end charitable gifts.
- ∞ Allows generous donors the ability to give past the 50% of Adjusted Gross Income limit.
- ∞ Is useful for Board Members, trustees and other major donors who frequently are asked to make gifts of \$100,000 or more—allows some "asset balancing" where the IRA is a substantial portion of the estate.
- ∞ Allows those who otherwise don't qualify to itemize deductions to make contributions and avoid the additional income tax otherwise payable if they are using the standard deduction.
- ∞ Provides a method for social security recipients with income (including their IRA RMD) which would otherwise cause their social security income to be subject to the second level (85%) of taxation rather than the lower 50% level to avoid that extra 35% level.

If this charitable option appeals to you, please consult your tax advisor and contact your local non-profit for donation information, and help keep alive the true meaning of the spirit of Christmas.

Chris Sly-Prochnow is a past President of the Animal Protection Society-Friday Harbor and a long time island resident.