2006 Pension Protection Act - Tax-Free IRA Distributions for Charity

The Pension Protection Act of 2006 (Pension Act) has several provisions encouraging individuals to make charitable contributions. One of these provisions allows individuals who are at least 70 by the end of the year to make a contribution of their taxable individual retirement account (IRA) distribution. A review of your tax return indicates that you may be eligible to take advantage of this opportunity.

As you may know, taxpayers cannot keep funds in traditional IRAs indefinitely. IRA owners must either withdraw the entire balance or start receiving periodic distributions from their traditional IRAs by April 1 of the year following the year in which they reach age 70. The minimum distribution that is required each year is computed by dividing the IRA account balance as of the close of business on December 31 of the preceding year by the applicable life expectancy. An IRA owner who does not make the required withdrawals may be subject to a 50-percent excise tax on the amount not withdrawn.

Many taxpayers, like you, who receive taxable distributions, also contribute to charitable organizations. The Pension Act offers the tax benefit of excluding up to $100,000 of your distribution from gross income by having it transferred directly to a charitable organization. This exclusion is available for taxable Roth IRA distributions as well as minimum required distributions from a traditional IRA.

Although a charitable contribution may be motivated by humanitarian reasons rather than by tax considerations, it is, nevertheless, wise to take tax considerations into account when making a contribution. Please call our office at your earliest convenience to discuss this new development as it applies to your charitable tax planning.