Tax Benefits of IRA Charitable Rollovers

The biggest one is this: although IRA distributions are normally taxable, amounts directly rolled over to charity by a qualifying donor are excluded from the donor’s income for federal income tax purposes. Since it’s excluded from income, the contribution is technically not deductible, but the economic impact is the same, and often better.1

In states (like Ohio) which base their income tax on what’s taxable for federal purposes, the amount rolled over to charity is excluded from the donor’s income for state income tax purposes as well. This is particularly helpful in states (again, like Ohio) which give no tax deduction for charitable gifts.

Even though the rollover amounts have passed to charity, they are treated – for purposes of the required minimum distribution rules applicable to IRA owners who have reached age 70-1/2 – as satisfying those mandatory annual payouts. So there’s a real reduction in taxable income in the year in which an IRA charitable rollover is made, which is very appealing to donors who don’t need the money to live on.2

Some people (and most high income people) have over the years contributed funds to their IRAs which they were not allowed to deduct when the money went in.3 When these “after tax” dollars come out of the IRA, they are tax-exempt. The rules applicable to charitable rollovers, however, treat 100% of what is rolled over to charity as coming from the “taxable” money in the IRA. This keeps all of the tax-exempt dollars in the IRA, so if they are paid out to an individual beneficiary at a later date they will be tax-exempt.

Because amounts rolled over to charity are excluded from the donor’s income for federal income tax purposes, his or her taxable income is of course lower than it otherwise would be. This can make it easier to claim the benefits of the several income tax deductions that are available only to the extent that

---

1 The economic benefit is always better for taxpayers who do not itemize deductions, and fewer and fewer taxpayers do: because the standard deduction was doubled under the federal tax legislation passed in late 2017, it’s estimated that only 10-12% of tax returns will claim itemized deductions for 2018 and subsequent years. Rollovers are better for people who do itemize if they are subject to any of the many rules that reduce the value of itemized deductions when federal taxes are calculated.

2 This is a nice deal, but it has limits. If the required minimum distribution in the year of a rollover was $20,000 but an IRA charitable rollover was made in the amount of $100,000, the $80,000 excess cannot be carried over to reduce the required annual distribution in a later year. But it reduces the size of the IRA, and that indirectly reduces required distributions in future years.

3 Only relatively low-income IRA owners are allowed to deduct contributions to IRAs.
they exceed a certain dollar amount or share of taxable income.\textsuperscript{4} It may also reduce Medicare premiums, since those premiums increase as taxable income goes up.

**Technical Requirements for IRA Charitable Rollovers**

\textsuperscript{4} For older taxpayers, for example, medical expenses are generally deductible only to the extent that they add up to more than 10\% of adjusted taxable income.
The IRA charitable rollover law is now a “permanent” part of the Internal Revenue Code, applicable to qualifying transfers made on or after January 1, 2015. The Code refers to charitable rollovers as “qualified charitable distributions,” but almost everyone uses the charitable rollover term and this memo uses that nomenclature throughout.

For a rollover gift to qualify, the donor must be 70-1/2 years of age or older at the time of the charitable rollover transaction. He/she must have actually attained that age by the time of the rollover. You have to have had that half-birthday. You can’t do a charitable rollover earlier in the year in which you become 70-1/2.

The money must come from an individual retirement account, as opposed to a 401(k) plan, 403(b) plan (like TIAA-CREF), or other form of retirement savings. But: Money can be taken out of a 401(k), etc., and rolled into an IRA and then distributed to charity so as to qualify as an IRA charitable rollover. However, don’t do this without professional help. There are some t’s to cross and i’s to dot in order to make this two-step arrangement work, and it can be confusing.

Charitable rollovers should be from “regular” or “traditional” IRAs as opposed to Roth IRAs. Technically, a charitable rollover may be made from a Roth IRA, but the tax benefits of a rollover from a Roth appear to be nonexistent. Charitable rollovers are not allowed under the rarely-seen odd ducks known as SEP IRAs or SIMPLE IRAs.

The money must go directly from the IRA custodian/trustee to charity. It can’t be paid to the donor first and then contributed by the donor to charity. But it’s OK for the IRA custodian to write the distribution check to the charity and have the IRA owner deliver it; in fact, many IRA custodians prefer this approach.

The recipient charity has to be a 501(c)(3) public charity like CWRU. It can’t be a private foundation or tax-exempt organization of other types. It also can’t be a “supporting organization” tied to a

---

5 Nothing is really “permanent” in the Internal Revenue Code – future Congresses can repeal anything – but the rollover law no longer has to be reauthorized every year or two, as was the case in the past.

6 This rule also produces confusion, because “ordinary” rollovers – such as from one plan or IRA to another plan or IRA – can in some circumstances use an individual as a short-term middleman.

7 Some IRA custodians now provide their customers with checkbooks that allow withdrawals from an IRA and payments to the account owner or a third party. Donors who use such checks to make rollover gifts should clearly indicate to a recipient charity that the check is a rollover gift. Printed language on such checks does not always make that clear.
public charity, or a donor advised fund like the Fidelity Charitable Gift Fund or donor advised funds operated by community foundations or other charities.

The donor can’t get anything back in return for the gift. So a charitable rollover can’t be used to fund a charitable gift annuity, charitable remainder trust, or other arrangement under which the donor gets an income stream in exchange for a gift. And technically, even minimal benefits provided by the recipient charity (free admission to a museum or a free dinner, for example) will cause the loss of rollover treatment. It’s OK, though, for the charity to provide a non-economic benefit, such as putting a rollover donor’s name on something that was funded with the gift. It’s also OK to use a rollover to pay off an outstanding pledge to a charity.

There is a $100,000 aggregate limit for such rollovers in a single calendar year. Donors may of course do rollovers for smaller amounts, and rollovers may be made to multiple charities. Rollovers can come from multiple IRAs. But it is a $100,000 overall annual limit on all rollovers from all of a donor’s IRAs to all recipient charities, not $100,000 per charity or per IRA. If both members of a married couple are over 70-1/2 and both have IRAs, though, each can do charitable rollovers of up to $100,000 in a single year.

Most advisors suggest that IRA charitable rollovers for a particular year be made no later than mid-December, so that they may be received by the charity in question and the check cashed before the end of that year. This may or may not be technically required (the IRS has not addressed timing issues with such specificity), but it is certainly prudent to proceed in that manner.

January, 2019

The above information is provided by the CWRU Office of Planned Giving, and is intended to provide general information that may be helpful to you in your charitable, financial and estate planning. It is not intended and should not be taken as personal legal, tax or other professional advice. The information is based on federal tax laws, regulations, rulings, and other guidance in effect on the date set forth above, and is for illustration purposes only. You should always consult with an attorney, accountant or other professional advisor for advice or assistance with respect to your particular financial and tax situation.