

Qualified IRA Gifts Provide Advantages Compared with Regular IRA Withdrawals

Probably the most frequently asked question is whether it is more advantageous for an IRA account owner to make a direct transfer to a charity, or to withdraw an amount, report the withdrawal as taxable income, give the amount withdrawn to a charity, and then claim an income tax deduction for the gift. For most donors, it is more advantageous to make a direct transfer.

Specific advantages depend on an individual's circumstances—state of residence, income, and other considerations. Here are some general tax advantages which may apply to your situation:

1. A regular IRA withdrawal may be subject to state taxes with no offsetting charitable deduction, because some states do not allow an income tax deduction for charitable gifts. Qualified IRA gifts are not subject to state taxes so long as the donor's state of residence follows the federal definition of income. See your tax advisor for specific information about your state.

Regular IRA withdrawals are considered income, and then a deduction is taken for the charitable gift. The addition to taxable income may or may not be fully offset by the charitable deduction, depending on the circumstances of the individual taxpayer.

For example:

- a. there is a 3% "floor" on itemized deductions for some taxpayers;
- b. the Alternative Minimum Tax (AMT) rules may result in a less than complete offset.

Qualified IRA gifts are not included in taxable income so these limits are not affected by such gifts.

2. A gift of the amount withdrawn from an IRA account is subject to deduction limits—50% of the donor's adjusted gross income, in the case of a gift to a public charity. This may result in an increase in taxable income depending on the amount withdrawn. A direct qualified IRA gift is not subject to any limit. The donor gets full advantage in the year the gift is made.
3. Regular IRA withdrawals can result in additional Social Security taxes and might result in the donor being subject to a phase-out of personal exemptions.
4. Donors who do not itemize deductions can not take a deduction for a gift made from an IRA withdrawal. Qualified IRA gifts do not require filing an itemized tax return in order to be excluded from income.

Other reasons for making a gift through a qualified IRA:

Qualified IRA gifts may be used to satisfy Minimum Required Distribution requirements.

Some donors may find it more convenient to make a qualified IRA gift than to make a regular, taxable withdrawal and take a charitable deduction.

This is not intended to be legal or tax advice. We encourage you to consult your own legal or tax advisor to see how you might be affected by the new law.

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