

Retirement Learning Center Pension Protection Act of 2006 "Quick Hits"

Tax Free Distributions from IRAs for Charitable Purposes

Step 1: Prospect Profile

In order to identify potential clients who may benefit from taking a qualified charitable distribution, identify clients who meet the following criteria.

- IRA holders who are age 70 ½ or older, who are interested in making charitable contributions

Step 2: Apply Technical Knowledge

Effective for distributions in 2006 and 2007, the Pension Protection Act of 2006 (PPA-06) allows IRA owners who are age 70 ½ or older to take "qualified charitable distributions."

- Generally, if an IRA owner takes a distribution from an IRA, he or she must include the amount in taxable income for the year to the extent it is a return of deductible contributions and earnings.
- An IRA owner age 70 ½ or older may take a qualified charitable distribution from an IRA (either Traditional or Roth), and exclude up to \$100,000 of the amount from taxable income if it is paid directly to a charitable organization.
- IRA owners may only take qualified charitable distributions in taxable years 2006 and 2007.
- Distributions from simplified employee pension (SEP) IRAs and savings incentive match plans for employees (SIMPLE) IRAs may not be considered qualified charitable distributions.
- Qualified charitable distributions may apply towards satisfying the IRA owner's required minimum distribution.
- A qualified charitable distribution is treated as consisting of a return of income from the IRA first.
- Qualified charitable distributions are not subject to the normal deduction rules for charitable contributions.

Step 3: Execute the Strategy

Contact the clients identified in Step 1 and ask each of them the following key question: **"Have you considered taking a qualified charitable distribution from your IRA?"**

In most cases, you will receive one of the two following responses.

Prospect Response #1: "A qualified charitable distribution—what's that?"

For these clients, focus your conversation on the details of the provision and the benefits to taking a qualified charitable distribution.

Sample Dialogue

Advisor: Tom, I have been reviewing your accounts and noticed that every year you make a contribution to your favorite charity. Is that correct?

Prospect: Yes, I do.

Advisor: Have you considered taking a qualified charitable distribution from your IRA?

Prospect: A qualified charitable distribution—what's that?

Advisor: Good question, it's something brand new for 2006 and 2007 as a result of recent tax law changes. A qualified charitable distribution allows individuals like yourself who are over age 70 ½ to authorize your IRA trustee to send money from your IRA directly to the charity of your choice. You can exclude up to \$100,000 of the donation from taxable income, and the amount can count towards your required minimum distribution for the year.

Prospect: This sounds like a much easier and faster way for me to make my charitable contributions. Can we arrange a meeting to discuss in greater detail?

Advisor: Absolutely, I would also recommend including your accountant in this meeting.

Prospect Response #2: "Yes, I have heard of it, but I'm not sure how it would help me?"

For these clients, focus your conversation on the benefits of qualified charitable distributions.

Sample Dialogue

Advisor: Jill, in reviewing your file I noticed that you will be turning age 70 ½ in 2006 and you make charitable contributions each year. Is that correct?

Prospect: Yes, it is.

Advisor: Did you realize that at age 70 ½ the IRS requires you to start taking distributions from your IRA?

Prospect: Yes, I have heard that I have to take a minimum amount each year.

Advisor: Right, and that amount would normally be taxable income to you. Have you considered taking a qualified charitable distribution from your IRA?

Prospect: Yes, I have heard of it, but I'm not sure how it would help me?

Advisor: If you take a qualified charitable distribution from your IRA, you can exclude up to \$100,000 from your taxable income—plus—the amount that you donate can be applied towards your required minimum distribution.

Prospect: Sounds too good to be true.

Advisor: Well, it is only available for 2006 and 2007 under new law changes.

Prospect: Interesting, how do I set up a qualified charitable distribution?

Advisor: Let's arrange a meeting with your accountant and we can discuss all the details.