Plan for the Potential IRA-to-Charity Provision Extension

Article Highlights

- IRA-to-Charity Transfer Provision
- Required Minimum Distribution
- Expired in 2014
- May Be Extended to 2015
- What Should Be Done Now In Case It Is Extended

If you are 70.5 or over, have not taken all or any of your 2015 required minimum distribution (RMD) from your IRA, and plan to but have not yet made a significant charitable contribution, here is a tip that could save some tax dollars.

In previous years, there has been a tax provision allowing an individual age 70.5 or older to make a direct transfer of money, up to $100,000, from his or her IRA account to a qualified charity. That provision expired on December 31, 2014. However, Congress has extended that provision in the past, and there is a good chance it may be extended again. In fact, the Senate Finance Committee working group on individual tax reform, just recently, recommended extending the provision.

If Congress does not extend it, you will have still satisfied your minimum distribution requirement, and the amount transferred to the charity will still count as a charitable contribution. If Congress does extend it, you can take advantage of the tax benefits described later in this article.

If you wait to see whether the provision will be extended, and Congress waits until the last minute, like it did last year, you may not have time to take action, as was the case for most taxpayers last year, or you may have already taken your RMD or made that charitable contribution.

If the provision is extended, here is how it will play out on a tax return:

(1) The distribution is excluded from income;
(2) The distribution counts towards the taxpayer's Required Minimum Distribution for the year; and
(3) The distribution does NOT count as a charitable contribution.

At first glance, this may not appear to provide tax benefits. However, by excluding the distribution, a taxpayer lowers his or her income (AGI) for other tax breaks pegged at AGI levels such as medical expenses, passive losses, taxable Social Security, etc. Non-itemizers essentially receive the benefit of a charitable contribution to offset the IRA distribution.

If you think that this tax provision may affect you and you would like to explore the possibilities with some tax planning, please call this office.