

Winter, 2007

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Private Client Services Update

THE IRA CHARITABLE ROLLOVER

Many individuals who have enjoyed the benefit of tax deferred growth in their Individual Retirement Accounts (“IRAs”), are searching for tax efficient strategies to access these bonanzas. A federal tax planning provision included as part of The Pension Protection Act of 2006 creates an opportunity for certain people who want to make contributions to their favorite charities but only if they do so before the end of 2007.

Generally speaking, if an individual withdraws funds from an IRA¹ to make a contribution to a charity, the distribution will be included in the taxpayer’s taxable income. The individual will be entitled to deduct the contribution for federal income tax purposes. But if the individual’s total contributions to public charities for the year exceed 50% of taxpayer’s “adjusted gross income”, the excess cannot be deducted in that year but must be carried over to the next year(s) until fully used.

However, if certain individuals withdraw funds from an IRA to make that contribution *before December 31, 2007*, the special tax break is available.

The particulars include:

1. Up to \$ 100,000 per taxpayer may be withdrawn from an IRA. If the requirements set out below are met, this amount will be *excluded* from taxable income;
2. The distribution must be made by the IRA trustee from the IRA account directly to a charitable organization described in Section 170(b)(1)(A) of the Internal Revenue Code – for example, churches, educational organizations, hospital organizations and public charities;² and
3. The donor must be at least 70 ½ years of age on the date the distribution is made.

Let’s assume an individual at least 70 ½ years old directs a distribution of \$ 80,000 to charity before the close of 2007. The individual gets the following primary tax benefits::

¹ Or Roth IRA account.

² The provision does not apply to contributions to private foundations or donor advised funds.

1. No part of the \$ 80,000 distribution will be included in taxpayer's federal taxable income, thereby yielding a tax savings of up to \$ 28,000 at the maximum federal tax rate of 35%.
2. The \$ 80,000 contribution to doesn't count against the deduction limits for contributions to other charities.
3. The \$ 80,000 counts towards the required annual minimum distribution for the year from the IRA.
4. Because the \$80,000 doesn't count as income the individual will be able to take more of certain other tax deductions that are limited to percentages of "adjusted gross income", such as the 7.5% floor for medical expense deductions, the 2% floor for miscellaneous itemized deductions and the 3% reduction for itemized deductions.
5. The IRA charitable rollover also benefits individuals who don't itemize their deductions and thus don't otherwise get any tax benefit from their charitable deductions.
6. Taxpayers in states like New Jersey don't get a state income tax deduction for charitable contributions. Making an IRA charitable rollover protects the contribution from state income tax.

This planning opportunity under The Pension Protection Act of 2006 should not be overlooked by anyone interested in making a contribution before the close of the year. As with any tax planning idea, individuals are advised to review the details with appropriate tax advisors.

Please call Warren Racusin or Maureen Dougherty at 973-993-8100 if you would like more information.

December, 2007

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Circular 230 requires that we notify you that, in the absence of written advice that strictly complies with the rules set forth in Circular 230, you cannot rely on advice given to you relating to any Internal Revenue Code matter for protection against a tax penalty. This notice is neither intended to be used for the purpose of avoiding any tax penalty nor can it be relied on in support of any marketed transaction. It is our intention to continue to deliver the highest quality services to you and in a cost efficient manner. Please call us if you have and questions about how the Circular may affect our representation of you.

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