




Inspiring and Connecting Thoughtful Giving

Toledo Community

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About Your Foundation

Since 1973, **Toledo Community Foundation** has provided individuals, families and businesses interested in the well-being of our community with an *efficient, effective, low-cost, professionally managed* mechanism to achieve their charitable goals.

For philanthropists wishing to maximize the impact and life of their charitable gifts, the Foundation provides *resources for thoughtful giving*. Using its expertise and personalized services, **Toledo Community Foundation** helps donors transform their philanthropic impulse to measurable community impact. Beyond the gifting of assets, the Foundation helps donors identify issues of importance to them and *inspires engagement* with community organizations addressing these issues, thereby maximizing the impact of charitable gifts and creating a greater sense of fulfillment.

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A Charitable Distribution

The tax package that President Obama signed into law in December contains one provision that makes it easier—and in some cases more tax efficient—for older Americans to give to charities and nonprofit organizations. Through 2011, individuals who are 70½ and older can make tax-free donations of up to \$100,000 from an IRA and count it toward their required minimum distribution (RMD). Couples can donate twice that amount tax-free.

The change provides significant tax advantages for certain groups of taxpayers, particularly those who donate a substantial portion of their income to charities. Here's a brief look at who stands to benefit most from this tax law change and how they can do it—along with some compelling reasons why community foundations are a particularly good fit for charitable IRA distributions.

Biggest Benefits Are for Serious Donors

Before the rule changes, clients who wanted to donate the required minimum distribution from an IRA to charity withdrew the funds and later wrote off the amount donated from their income. This eliminated some or all of the taxes generated by the withdrawal.

The provision on the books for 2011 has the same end result for most taxpayers, but makes it easier to achieve. Under the new provision, an IRA distribution made directly to a charity is simply excluded as taxable income, though it still counts toward a required minimum distribution.

Certain taxpayers could also see significant tax savings under the new provision. “For example,” says Doug Weber, chief financial officer at the Ann Arbor Area Community Foundation, “if you are subject to a sizable state income tax that is based on adjusted gross income [AGI], you will be reducing your state income tax by using your required minimum distribution for a charitable distribution.” Another group that benefits are taxpayers who do not itemize their deductions and therefore would not otherwise get an income tax benefit from their charitable giving.

Weber notes that those benefiting most from the new provision are “donors who are reaching the limit of charitable contributions they can deduct.” Because individuals can deduct a maximum of 50 percent of their AGI for charitable giving each year, taxpayers who donate beyond that limit would otherwise receive no tax benefits from additional contributions. Now they can add an extra \$100,000 to the amount of income they are able to give away tax-free.

Weber provides as an example a retired couple with \$100,000 in AGI from various retirement accounts and substantial personal wealth. “They’d like to be giving away a couple of hundred thousand dollars a year, but they won’t be able to deduct all that because they can only deduct up to 50 percent of their AGI.” By making a direct IRA distribution to charity, Weber explains, they can greatly increase the amount they give away tax-free.

“Making a charitable IRA distribution offers slight tax advantages for most taxpayers,” he says, “but it can provide substantial advantages for taxpayers who are already charitable.”

Making the Most of a Charitable Distribution

Community foundations make especially good recipients of charitable IRA distributions. First, charitable distributions can be made only as outright gifts to public charities, meaning that donor advised funds, pooled income funds, gift annuities, and supporting organizations are all off-limits. But donors looking for the flexibility these vehicles offer are allowed to make a charitable IRA distribution to community foundations, which offer many of the same benefits. For example, a community foundation can distribute one donation to several different charities based on a donor's preferences.

Moreover, those who stand to benefit the most from the charitable distribution provision—donors who give more than 50 percent of their AGI to charity—are also those whose giving often fits best with community foundations. "Individuals who are looking to give a relatively small amount are more likely to give that money directly to a charitable organization," says Weber. Those looking to give a large, one-time gift with lasting impact, on the other hand, should talk to a community foundation before the new provision expires. "This year, donors who want to make a one-time sizable gift have a great opportunity to establish an endowment that will make a difference in their community forever."

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