



"Giving" Advice



[<Back to Front Page](#)

[Forward this Article>](#)

[Print This Article](#)

Lesser-Known Pension Act Provision Confounds Funds

Copyright 2006 Gale Group, Inc.
All Rights Reserved
ASAP

Copyright 2006 SourceMedia, Inc.
Money Management Executive
October 30, 2006
Lori Pizzani

A little-discussed provision of the Pension Protection Act of 2006, which President Bush signed into law this past August, has investment management firms scrambling to understand its full ramifications.

The provision allows for contributions of up to \$100,000 annually to be donated to a charity, or divvied up between charities, directly from IRA accounts of individuals who are at least 70½ years of age—but only applies to calendar years 2006 and 2007. Unless extended by Congress, this philanthropic feature will sunset at year-end 2007.

While this may be good news for some charities hungry for cash, it's spelling headaches for investment firms. Some of the confusion lies in different firms' interpretation of the provision's specifics, and so far, the Internal Revenue Service hasn't offered any guidelines.

One major question is how to report a charitable distribution from an IRA on Form 1099-R, said Craig Brimhall, vice president of retirement wealth strategies at Ameriprise Financial in Minneapolis. Right now, all distributions must be reported as taxable, but will payouts to charities be non-taxable?

Ameriprise has developed a white paper to explain the new law's stipulations, and has been counseling its network of financial planners on the dos and don'ts of the provision.

The charitable contributions will not be subject to federal income tax and



**TOLEDO COMMUNITY
FOUNDATION**
608 MADISON AVE
SUITE 1540
TOLEDO, OHIO 43604-
1151

419-241-5049
[TCF "GIVING" ADVICE
NEWSLETTER](#)

ABOUT YOUR FOUNDATION

Since 1973, the **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.

will qualify for the required minimum distributions that start at age 70½, explained Rania Sedhom, an attorney, senior manager and regional leader of the benefits practice group at BDO Seidman of New York.

Thus, the charitable feature can benefit several groups of people, such as the wealthy who, by law, must take annual withdrawals from their IRAs once they pass 70½ years of age but who do not really need this forced income to live on. The feature also benefits those who want to reduce their assets for estate-planning purposes, as well as those who do not itemize tax deductions.

However, there are a number of caveats. First, the allowable donations to charities must be sent to the charity directly from the plan's trustee or custodian, Brimhall said. Second, Sedhom added, the contributions cannot be made under any "quid pro quo" arrangement under which the donor derives a benefit such as receiving a table of seats at a charity event.

Third, for the charitable contributions to be excluded from federal income, they can only be made to public charities, not to donor-advised funds or to charitable remainder trusts, said Jere Doyle, senior vice president in the private wealth management group at Mellon Financial of Pittsburgh. The provision also excludes many other worthy private charities, such as endowments and local religious organizations.

Fourth, Charles Schwab of San Francisco is informing investors that while contributions are exempt from federal taxes, individual states must decide whether or not to grant immunity from state taxes, said Schwab spokeswoman Sondra Harris. New Jersey is the first state to declare that it will not grant a state tax exemption for residents, she said.

Further, experts said, it's unclear whether the investor or the institution is responsible for proof of the charity's qualification. In addition, it isn't clear whether this provision applies to people age 70½ or older who have inherited an IRA, Doyle said. Although individuals can apply for an IRS private letter ruling to hash out particular issues, it costs \$9,500 per request and typically takes time, he noted.

Financial institutions will be setting up proprietary limitations and deadlines for requests, Doyle predicted. Mellon, for instance, will set a \$10,000 minimum charitable transfer per request so as to avoid having to cut multiple small checks to charities, he added. He also predicts that other firms will be setting deadlines, such as Dec. 1 or Dec. 15, for requests to allow time for firms to execute them. "Some mutual funds may get flooded with requests," he predicted.

A spokeswoman at Fidelity Investments of Boston said the firm has already had requests. It has set no minimum payout to charities, although requests with an alternate payee and address stipulated will require a signature guarantee of the plan holder and will need to be received by Dec. 15.

Schwab also has a mid-December cutoff and is educating its investors that only traditional and Roth IRAs will qualify for such gifts. SEP IRAs and SIMPLE IRAs are excluded. Moreover, Schwab is placing the burden of proof on investors as to whether a charity qualifies.

(c) 2006 Money Management Executive and SourceMedia, Inc. All Rights Reserved.

October 31, 2006

[Copyright](#) © 2005 LexisNexis, a division of Reed Elsevier Inc. All rights reserved.

[<Back to Front Page](#)

[Unsubscribe to this e-newsletter.](#)

This email was sent to you by a community foundation affiliated with the Council on Foundations (COF) or Community Foundations of America (CFA) . If you are not an intended recipient of this e-mail, please notify the sender and then delete it. COF & CFA policy bars the use of bulk mail lists. If you believe you received this email outside of these policies, please let us know at privacy@nmatpublisher.com. [Technical support](#) is available if you are having problems with this email. This information is provided as a service to you. Product references are not intended as a solicitation, but rather, to provide information and address issues raised. Unless otherwise indicated, all service marks are the property of COF & CFA. Copyright 2006 Council on Foundations & Community Foundations of America. All rights reserved.

POWERED BY **hnw**