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REFORMED SEMINARY

IRA Charitable Rollover Fact Sheet

Effective through December 31, 2014

Background

On December 19, 2014 President Obama signed HR 5771 extending the "IRA charitable rollover" incentive allowing persons age 70½ or older to exclude from their gross income gifts transferred directly from their IRAs to Mid-America Reformed Seminary.

Previous Law

Any distribution from an IRA or other tax-deferred retirement account was considered taxable income and subject to tax at ordinary income tax rates unless it was a rollover to another IRA account. Distributions had to be made to the account holder, or upon death, to the listed beneficiary of the account. A spouse, children or other individuals could be named as beneficiaries, but the IRA funds were still subject to tax as they were distributed. The only method to avoid the tax liability in the account was to name a charitable organization as the beneficiary upon death.

Explanation of the Provision

Under this provision, individuals may make gifts to charity from their Traditional IRA and Roth IRA accounts *without any tax liability* if their gifts are "qualified charitable distributions." No charitable deduction may be taken, but *distributions will qualify for all or part of the IRA owners required minimum distributions.*

What kinds of plans are eligible?

The tax exclusion applies to traditional IRAs and Roth IRAs only. Other forms of retirement plans such as 401(k), 403(b), defined benefit and contribution plans, profit-sharing plans, Keoghs and employer-sponsored SEPs and SIMPLE plans are not eligible. Previously all distributions from IRAs were taxable as ordinary income; they are now excludable from gross income, eliminating the income tax liability for such gifts. Owners of ineligible plans may consider rolling amounts into a qualifying IRA to take advantage of the new rules. This decision should be made with the assistance of your financial consultant or accountant.

How long is this in effect?

The current rule stipulates that qualified charitable transfers must be delivered from your IRA administrator or custodian to Mid-America Reformed Seminary no later than Dec. 31, 2014.

Can this qualify for my RMD (Required Minimum Distribution)?

Yes. You can direct the entire RMD to be transferred to Mid-America Reformed Seminary up to the $100,000 limitation per year.

Who can exclude IRA distributions?

An individual must be 70½ by the *date of contribution*. This law differs from the rules associated with RMD. The IRS requires a minimum distribution to be taken during the year you reach 70½, or by April 1 of the following year.

What are the limitation amounts?

A plan owner may exclude an amount from income limited to $100,000 per taxpayer per year. A husband and wife could transfer up to $200,000, provided each owns at least one IRA and can each make a qualified charitable distribution of $100,000 from their plans. Any amounts exceeding this limitation are subject to the previous rules.

Do all types of charitable gifts from an IRA qualify under the new law?

The charitable organization may not be a donor-advised fund, supporting organization or private foundation and the gift must be made directly to the charity. Gifts to charitable remainder trusts, charitable gift annuities, pooled income funds or other split interest vehicles do not qualify. Field-of-interest funds, designated funds, scholarships, and restricted or general endowments, for which donors or their designees have no advisory rights, are perfectly suitable recipients for charitable IRA rollovers.

Is there beneficial income tax treatment under state law?
Perhaps. Please check with your tax adviser, as the answer will be different depending on your state of domicile.

Who can benefit from the new IRA rollover rules?
If you are a non-itemizer, this will eliminate the need to claim a charitable income tax deduction. Additionally, individuals who choose to make gifts in excess of 50 percent of adjusted gross income could also benefit. For higher income earners, the impact of receiving additional income on the taxability of social security payments, the deductibility of medical expenses, miscellaneous itemized deductions and child tax credit, and application of the alternative minimum tax can often result in a net income tax cost of making a charitable gift. Qualified charitable distributions from IRAs may eliminate this friction and you will need to perform trial income tax calculations to analyze your net income tax effect.

How do I make a gift to Mid-America Reformed Seminary under this new law?
Contact your IRA administrator or custodian and let them know that you want to make a gift directly from your IRA to Mid-America Reformed Seminary. The plan administrator will advise you on the requirements for transferring funds for a qualified distribution. Ask the administrator to indicate on the transfer of funds that you are the donor. You will want to start this process well before December 31 so that your gift can be completed before year's end.

Qualifications

- The donor must be at least 70½ years old at the time a transfer (rollover) is made from the IRA to Mid-America Reformed Seminary.
- The transfer must be made from the IRA ***directly*** to Mid-America Reformed Seminary.
- A qualified charity is an organization described in section 170(b)(1)(A), other than an organization described in section 509(a)(3). (Mid-America is a qualified charity.)
- Transfers must be made before January 1, 2015.
- The combined value of all transfers made (whether to one or more charities) cannot exceed $100,000 per taxpayer per taxable year.
- Transfers are not included in your adjusted gross income for federal income tax purposes.
- Transfers to charity may count as part of your annual mandatory IRA withdrawal amount.
- IRA transfers to charity are not taken into account in determining the deduction eligibility of other charitable contributions.

Cautions

There are several restrictions and issues to keep in mind:

- The transfer must be made from your IRA directly to Mid-America Reformed Seminary; otherwise you must declare the distribution as income.
- The plan must be a traditional IRA or a Roth IRA; it cannot be an employer sponsored plan such as a SIMPLE IRA, a 401(k) or 403(b) plan or a simplified employment pension ("SEP") plan.
- Distributions from Roth IRAs are not taxed to the account owner, so it is still wise to determine if some asset other than the Roth IRA is best to give to charity.
- Transfers are not deductible as charitable gifts.
- You may receive no benefit from the charity for your transfer (e.g. tickets, dinners, etc.).
- Transfers cannot be made to charitable gift annuities, charitable remainder trusts or pooled life income funds.
- Transfers cannot be made to donor advised funds, private foundations, or "supporting organizations."

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- The donor is responsible for and must obtain documentation for the transfer as he/she would substantiate any other gift to charity.
- Transfers are made from otherwise taxable income first. Non-taxable income in your IRA may not be considered a qualified transfer and should be handled differently.
- It is still unclear how (and if) various IRA administrators will implement the opportunity, e.g. charging fees for transfers, setting minimum transfer amounts or maximum number of transfers per year, defining the process necessary to make transfers and establishing the eligibility of charities to receive transfers.

Who might use this opportunity?

- If you already give up to your 50% charitable deduction limit of your adjusted gross income, this legislation may allow you to, in effect, exceed that limit in 2014.
- If you have a "carryover" of charitable deductions from past tax years, this legislation would allow you to make gifts without impacting those carryover amounts.
- If your level of income causes a phase-out of certain deductions, a rollover may allow you to make gifts without increasing (maybe even decrease) your adjusted gross income.
- If you do not itemize your deductions, you may be able to make gifts from your IRA without increasing (maybe even decrease) your adjusted gross income.
- It may simply be easier to make a transfer from your IRA to charity and not need to worry about the income tax implications.
- If the majority of your assets are in IRAs, it may be more convenient to make a direct transfer rather than reporting a withdrawal on your income tax return.
- If you've been thinking about making a larger gift, this may provide a tax-advantaged time-frame for doing it.
- In some states (check with your advisor) a charitable deduction is not allowed for state tax purposes. A rollover that, in effect, reduces your reportable income may result in savings on state taxes as well.

This information is not legal, tax or financial advice. Please consult your attorney or other professional adviser before making any financial decisions.