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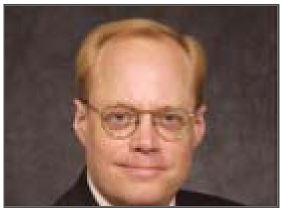

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# Beware Charitable IRA Snafu

If you are unaware of so-called charitable individual retirement account ("IRA") donations, you may be better off. That's the painful lesson of a popular tax provision affected by the last-minute "tax deal" law passed in December. Here's the good, the bad and the ugly about this great idea that (for all its headaches) still works great in 2011 if you time it just right.

Until the end of 2009, taxpayers aged 70½ or older could donate up to $100,000 a year of IRA assets ***directly*** to charity–without first taking the IRA distribution into income. There was no charitable contribution deduction for the transfer to charity, but remember, IRA distributions are normally taxed as income. Significantly, the transfer to charity counted as a "Required Minimum Distribution" for purposes of the IRA rules. See Retirement Plan FAQs.

This device wasn't for everybody, of course, but it proved popular and seemed good for society too. It was ideal for older people who had to take Required Minimum Distributions from their IRAs, who didn't need the money and who were giving to charity anyway. They could kill three birds with one stone.

Although this perk expired at the end of 2009, like many other expired tax breaks, this one was extended by the year-end tax bill to (retroactively) cover all of 2010, plus 2011. Plus, it looked like the IRS and Congress were in sync about allowing 70 ½ plus taxpayers a little extra time.

The IRS announced taxpayers would have until January 31st to make 2010 donations. That's great, but what if you already made a donation to charity in late 2010 from taxable sources?

Since the "tax deal" compromise wasn't passed until December 17th, some taxpayers made contributions before that date and now want to undo them. Similarly, some taxpayers made their Required Minimum Distribution in early or mid December, and wish they could now redirect the money to charity.

This should be possible, right? Nope. The IRS announced that the law doesn't allow required payouts to be rolled back into an IRA or given to charity.

On the brighter side, if you didn't take a Required Minimum Distribution in 2010, the IRS says you have until the end of January 2011 to use the retroactive benefit for 2010 and make the direct transfer to charity from your IRA. Plus, since Congress extended this benefit through 2011 you can use it for your IRA Required Minimum Distribution for 2011 too.

To recap:

1. Individuals 70½ and older can make up to a $100,000 gift from an IRA to qualified public charities for 2010, and another $100,000 for 2011; 2010 IRA rollover gifts can be made through January 31, 2011.

2. The funds must be *directly* transferred from IRA accounts to the charities (ask your IRA custodian for special forms).

3. If you have not yet taken your 2010 Required Minimum Distribution, this donation to charity may satisfy that requirement in whole or in part.

4. You won't get an additional income tax deduction for the donation, but not being taxed on the IRA withdrawal may be worth more than a charitable deduction.

5. Only standard IRAs and Roth IRAs qualify. Other retirement accounts such as 401(k), 403(b), SEP, KEOGH, and SIMPLE IRA plans don't qualify.

For more, see:

IRS: No Charitable IRA Do-Over

Saving Taxes By Giving To Charity

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