



# Making Charitable Contributions from Your IRA

by Sam Bakou, CFP®

Last month we touched upon the new rules on deducting your charitable contributions in 2007. For IRA holders over 70½, there is an additional benefit when making a charitable contribution directly from your IRA's Required Minimum Distributions (RMD).



The Pension Protection Act of 2006 (PPA) established a time-limited provision (2006 and 2007) allowing IRA holders over 70½ to direct up to \$100,000 of their RMD as a "Qualified Charitable Deduction" (QCD). For taxpayers who are losing part of their itemized deductions or are exposing a higher percentage of their Social Security

as part of taxable income, this option can make good economic sense.

### QCD Basics & Tax Benefits

IRA owners receiving an RMD must include the entire amount as part of their gross income for that year. For those making a subsequent charitable contribution, the hope is to have the contribution offset some or all of the tax consequence of the RMD. On many occasions though, the recipient's other income sources may limit them from claiming the entire itemized deduction amount. In addition, IRA owners receiving RMDs and Social Security benefits may expose a higher percentage of their Social Security to income taxes. Depending on other income sources, up to 85% of Social Security benefits may be subject to income taxes. Utilizing this new provision will allow the entire QCD from an IRA to be excluded from income and possibly reduce the tax liability.

Below is a sample tax return of a single filer donating \$4,500 with and without a QCD. Not including the \$4,500 in her gross income reduces the "taxable Social Security" by \$1,875 and ultimately saves her \$475 in Federal taxes.

COMPARE THE TAX SAVINGS OF QCD		
	WITHOUT QCD	WITH QCD
<b>INCOME</b>		
IRA DISTRIBUTION*	\$16,000	\$11,500
TAXABLE SOCIAL SECURITY*	\$17,000	\$15,125
OTHER INCOME	\$25,000	\$25,000
<b>ADJUSTED GROSS INCOME</b>	<b>\$58,000</b>	<b>\$51,625</b>
<b>INCOME ADJUSTMENTS</b>		
CHARITABLE DEDUCTIONS	\$4,500	\$0
OTHER DEDUCTIONS	\$14,000	\$14,000
PERSONAL EXEMPTION	\$3,400	\$3,400
<b>TAXABLE INCOME</b>	<b>\$36,100</b>	<b>\$34,225</b>
ESTIMATED FEDERAL TAX	\$5,455	\$4,980
* THIS TAXABLE INCOME IS LOWER DUE TO THE QCD.		

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### **Qualified Charities**

The list of organizations that will qualify for this donation is very broad. Refer to page A - 4 of the Income Tax Form 1040 Instruction booklet for a list of qualified organizations you may make your donations to <http://www.irs.gov/pub/irs-pdf/i1040.pdf>. Some charities, including donor-advised funds and private foundations will not qualify for the QCD.

### **How do I make a QCD?**

How you make a Qualified Charitable Distribution depends on where IRA assets are held. Usually, the IRA Custodian will have to be notified and directed to mail the QCD to the receiving charity. Acknowledgement from the receiving charity detailing the date of your donation, the amount and the fact that it came directly from an IRA is essential. Some taxpayers may have to request this receipt since the process is so new. Maintain these records with your tax return just in case you are ever audited.

If you would like to elect a QCD in 2007, please contact your Vantage Relationship Manager. Remember this provision will only be effective until the end of 2007 unless Congress extends the date.

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