

New Pension Law Also Provides for Charity

Provision Allows for Tax-free Charitable Transfers from IRAs

Janesville, WI – Since 1974, millions of Americans have saved billions of pre-tax dollars in Individual Retirement Accounts (IRAs). Thanks to continued savings and investment returns, an estimated \$3.6 trillion is currently invested in IRAs, and the total continues to grow. Last month, a federal law was enacted allowing IRA owners to share the wealth of their retirement savings by giving directly to charity—without first counting it as income and paying income tax.

The new law could be a boon to local philanthropy.

“This is a wonderful win-win—for people who would rather give to charity than pay taxes—and the nonprofit organizations they choose to support,” said Sue Conley, Community Foundation of Southern Wisconsin Executive Director.

Thanks to decades of deliberate saving and favorable investment returns, a substantial share of today’s retirees have more money in their IRAs than they’ll ever need. Many have expressed an interest in giving the funds to charity, but income tax must be paid on all withdrawals, which sharply reduces the value of the gift. Others have asked about designating their children as beneficiaries, but that may draw additional tax consequences.

“For larger estates, a good portion of IRA wealth goes to estate taxes and income taxes of beneficiaries,” Conley said.

A provision in the new federal Pension Protection Act of 2006, signed by President Bush last month, creates a new option: transferring IRA assets directly to charity. By going directly to charity, the money is not included in the IRA owner’s income and—most importantly—is not taxed, preserving the full amount for charitable purposes. The law covers all gifts made this year and next.

In 2006 and 2007, holders of traditional and Roth IRAs who are at least 70 ½ years old can make direct charitable transfers up to \$100,000 per year. As a qualified public charity, the Community Foundation of Southern Wisconsin can help donors execute the transfers and choose from several charitable fund options for their gift. Donor Advised Funds do not qualify for tax-free IRA transfers.

“This really is a limited-time offer: the window is open now, but it will close in 2007 unless Congress extends it,” said Conley. “For anyone interested in establishing a permanent legacy in this community, this is the opportunity of a lifetime to make the gift of a lifetime.”

Through philanthropic services, strategic investments and community leadership, Community Foundation of Southern Wisconsin helps people support the causes they care about, now and for generations to come.

SIDEBAR

Gift of a Lifetime: Shopping for Charity

Having more retirement money than you need is a great problem to have, and one that’s now easier to solve. But generous IRA donors still face multiple options for their gift: Support the entire community? Underwrite a special cause? Shore up a favorite charity? Here are three top charitable fund picks of Sue Conley, Community Foundation of Southern Wisconsin Executive Director.

Community Enhancement Fund: Meeting ever-changing community needs.

IRA transfers to the Community Enhancement Fund address a broad range of current and future needs. The Community Foundation of Southern Wisconsin evaluates all aspects of community well-being—arts and culture, community development, education, environment, health and human services—and awards strategic grants to select projects and programs.

Conley: “For people who care deeply about this community and its people, this fund is an excellent way to address our most pressing needs, today and tomorrow.”

Field of Interest Fund: Connecting personal values to high-impact opportunities.

IRA transfers to Field of Interest Funds allow donors to target gifts to causes important to them: arts, AIDS services, urban education, neighborhood revitalization, youth welfare, and more. Community Foundation of Southern Wisconsin awards grants to community organizations and programs addressing the donor’s specific interest area.

Conley: “For those who are particularly passionate about a single cause, Field of Interest Funds provide strategic, lasting support—even as needs change over time.”

Designated Fund: Helping local organizations sustain and grow.

IRA transfers to Designated Funds allow donors to support the good work of a specific nonprofit organization—a senior center, museum, or any qualifying nonprofit charitable organization.

Conley: “For people who want to help secure the future of their favorite charities, our endowed Designated Funds give nonprofits a steady stream of income, plus planned giving and investment management services.”

Sources:

Sue Conley, Community Foundation of Southern Wisconsin Executive Director

IRA MARKET SHARES BY HOLDER, 2001-2005

(\$ billions, end of year)

By holder	2001	2002	2003	2004	2005
Commercial banking	\$160.1	\$165.6	\$166.0	\$168.0	\$170.5
Saving institutions	54.6	53.8	55.1	53.7	53.8
Credit unions	39.9	43.3	46.8	47.7	49.3
Life insurance companies	251.0	308.3	338.4	376.0	407.0
Money market mutual funds	172.0	190.0	171.0	153.0	162.0
Mutual funds	961.3	822.0	1,095.0	1,279.0	1,432.0
Other self-directed accounts	980.1	950.0	1,118.6	1,258.7	1,392.4
Total	2,619.0	2,533.0	2,991.0	3,336.0	3,667.0
Source: Board of Governors of the Federal Reserve System					

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