

CHARITABLE IRA ROLLOVER



Gift Planning Tip:

Retirement plans and IRAs can be among the highest taxed assets in your estate. Factoring in the income tax on distributions, possible estate taxes, and generation-skipping taxes, the total tax bill for your heirs could exceed 80 percent. Consider a charitable estate designation to Penn State instead.

The charitable provision of the Pension Protection Act of 2006 has been extended to include gifts from IRAs to a tax-exempt organization like Penn State in 2008 and 2009. This tax-free gift option was included with other amended tax provisions that support higher education as part of the Emergency Economic Stabilization Act of 2008.

What are the requirements?

- >> You must be 70½ years of age.
- >> Tax benefits apply to gifts of up to \$100,000 per year for tax years 2008 and 2009.
- >> The provision expires December 31, 2009.
- >> The amount must be in the form of an outright gift.

Example

Joseph Nittany has several traditional IRAs totaling \$1.5 million. In May, he celebrated his 71st birthday. That means that in 2008 his required minimum distribution from these accounts will be approximately \$55,000. Under the new law, Joseph can instruct his plan administrator to transfer that amount to Penn State as a charitable gift to avoid the taxable event that would have been triggered by this additional income. He could then fulfill his dream of endowing a named scholarship fund to benefit students in the college, campus, or unit of his choice.

Who can benefit from a charitable IRA rollover?

While other gift planning options are available to Penn State alumni and friends, the charitable rollover may be particularly appealing if:

- >> You have maxed out your charitable deductions.
- >> You are a non-itemizer.
- >> You currently reside in a state that does not allow itemized charitable deductions.

Common Questions

My spouse is also a Penn State graduate. Can we both take advantage of the charitable rollover option in the same year?

Yes. The amount that can be excluded from income is limited to \$100,000 per taxpayer. As a married couple, you can together donate up to \$200,000, provided that each of you owns at least one or more IRAs and has reached age 70½.

If I make a gift to Penn State using funds from my IRA, do I qualify for a tax deduction on that amount?

No. The Charitable IRA Rollover allows individuals to avoid paying income taxes that were never paid when the funds were deposited.

If I elect to make a qualified charitable distribution to Penn State from my IRA, will I be required to itemize my deductions at tax time?

No. If you are part of the nearly 60 percent of taxpayers who elect the standard deduction at tax time, this new giving option will not change that for you. However, if your account includes non-deductible contributions, you may be able to take a charitable deduction on that amount. To guarantee the most favorable tax treatment of your donated IRA assets, please consult your financial adviser.

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Can I use funds withdrawn from other qualified tax-deferred retirement accounts, such as a 403(b) or 401(k) type plan?

No. The provision only provides a benefit for owners of an IRA or Roth IRA. Other forms of retirement plans such as 401(k) and 403(b) annuities, defined benefit and contribution plans, profit-sharing plans, Keoghs, and employer-sponsored SEPs and SIMPLE plans are not eligible.

Do I have to pay capital gains tax on the amount that I give to Penn State from my IRA?

No. One reason this gift-planning option is so attractive is that—in a sense—it “costs less” to make such a gift.

Can I use the qualified charitable distribution to create a trust or gift annuity or another life income agreement from which I will benefit?

No. Only outright cash gifts qualify for this benefit. As stated in the provision, “The exclusion from income applies only if a contribution deduction from the entire distribution otherwise would be allowable (under present law), determined without regard to the generally applicable percentage limitation.” Thus, split-interest gifts (e.g., life income agreements) of any type do not qualify.

New freedom to make the gift of a lifetime today

Because as much as \$100,000 of your gift of IRA assets can be excluded from taxable income for years 2008 and 2009, Penn State alumni and friends have an opportunity to reach even further to make gifts now that have a tremendous impact on the University. In order for the amount transferred from your IRA to Penn State to be a qualified charitable distribution (QCD), however, current rules stipulate that the funds must be transferred directly from the plan administrator of your IRA to Penn State. You are required to contact the plan administrator to request the transfer.

We encourage you to inform Penn State directly of any forthcoming gift from you. At that time, you can designate how the funds will be used. Sample letters are available from Penn State’s Office of Gift Planning, whose staff will be happy to help facilitate the process. As always, you will receive a gift receipt from Penn State confirming the amount of the gift and the date it was received.

If you have any questions about gifts of retirement assets, contact our office today.

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Let us help you plan.

Penn State’s Office of Gift Planning will confidentially answer your questions about giving and work closely with your legal, tax, and other advisers to come up with an integrated plan that meets each of your personal goals. Please contact us anytime or visit our interactive gift planning Web site at www.giftplanning.psu.edu.

