THE AYN RAND® INSTITUTE

Tax-Free Charitable Contributions from Individual Retirement Accounts

The "Protecting Americans from Tax Hikes (PATH) Act" became law on December 18, 2015. Of potential interest to qualifying ARI donors is one of the charitable giving incentives included in the bill: Tax-free distributions from Individual Retirement Accounts to non-profit organizations are possible for individuals who have reached the age of 70.5 and who own IRAs.

Previous legislation in effect temporarily during 2006–2014 provided for tax-free distributions for limited periods of time. The 2015 legislation made this opportunity permanent, no longer subject to expiration dates. Since there is no tax deduction involved—the distribution is simply excluded from gross income—even those who do not itemize deductions may participate. Can you take advantage of this opportunity, and would you want to? To find out, continue reading . . .

1. I'm interested. What else do I need to know?

The key points of the legislation are as follows:

a. You must be at least 70.5 years old to make a "Qualified Charitable Distribution" (QCD) from your IRA.
b. Gifts must be from your traditional IRA, not from other types of retirement plans. (The legislation does not speak to Roth IRAs; see #5 below.)
c. Total charitable distributions from your IRA may not exceed $100,000 per year; other than this limit, distributions may be in any amount—more than, less than, or equal to your Required Minimum Distribution (RMD).
d. Distributions must be made directly from the IRA custodian to ARI.
e. Distributions must be outright charitable gifts (vs. contributions to fund gift annuities and other planned giving arrangements, which do not qualify).
f. Public charities qualify to receive IRA gifts, but private foundations, donor-advised funds, and support organizations do not. For example, the Ayn Rand Institute qualifies, but the Anthem Foundation for Objectivist Scholarship does not.

2. Who is most likely to be motivated to make a charitable gift from an IRA?

Generally speaking, individuals 70.5 and older who are required to take IRA distributions, but who do not need or want the taxable income from that source, may find the IRA gift opportunity attractive—especially if they do not itemize deductions. Other circumstances that could motivate an IRA gift are covered in additional questions and answers below.

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3. I do not itemize deductions on my tax return. If I transfer funds from my IRA to ARI, how do I achieve the tax savings?

There is no charitable deduction for an IRA charitable transfer. Rather, the amount transferred is simply not considered when you calculate your taxable income. Previously, any distribution from your IRA was fully taxable; now, assuming you meet the age threshold and other requirements listed above, a distribution to charity is tax-free whether you itemize or not. This can be a significant advantage for non-itemizers who want to support ARI and reduce their taxable income.

4. Why is there no charitable deduction for a transfer to ARI from my IRA?

Like a number of other retirement plans, IRAs are tax-deferred under federal law. You lowered your taxable income back when you made pre-tax contributions to your IRA (and even if you were not able to deduct the amount of the contribution, it has grown in value free of tax); now, when you take distributions from your IRA, that income is taxable at your ordinary income rate. If both a tax-free transfer to charity and a charitable deduction were allowed, that would constitute a double tax "benefit" in the eyes of Congress.

5. Distributions from my Roth IRA are already tax-free. What's the tax advantage to me of making a transfer to ARI from my Roth IRA?

There probably is no advantage. There would be a charitable deduction in the case of a charitable transfer from a Roth IRA—but since the principal and growth in a Roth IRA are permanently tax-free, Roth IRA owners may find that it is more tax-efficient to contribute other assets to ARI. Essentially, a gift from a Roth IRA is the same as a gift of cash.

6. I do not have an IRA, but I have a 401(k) plan. Could I investigate rolling the 401(k) over to an IRA in order to take advantage of the legislation?

Yes. Other possibilities for rolling over to an IRA include 403(b), TIAA-CREF, and Keogh plans. Keep in mind, however, that there may be reasons to stay in your current plan (e.g., surrender charges, ERISA protection). Consult your financial advisor before taking this step in order to arrange an IRA gift to ARI.

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7. I have already taken my 2016 RMD from my IRA. Is it too late to send that money to ARI tax-free instead?

Yes, it is too late. The transfer must have been made directly from your IRA custodian to ARI, not via a withdrawal by you.

8. If my spouse has an IRA and has reached age 70.5, can both of us transfer up to $100,000 to ARI from our IRAs?

Yes. The $100,000 annual limit applies to each IRA holder, not to each household. If both you and your spouse were to take full advantage of tax-free IRA gifts to support the Institute, you could give $200,000 per year.

9. Aren't there IRS limits on how much of my income I can donate each year?

Yes, but they do not apply to charitable transfers from IRAs.

Depending on the type of asset you contribute to ARI, you may claim a charitable deduction for up to 50% or 30% of your adjusted gross income (AGI). If you contribute more than the deduction ceiling, you may "carry forward" the unused deduction for up to five additional years.

But since there is no deduction for IRA charitable transfers, the question of deduction ceilings does not even arise. In effect, the legislation allows more charitable giving—up to $100,000 more per IRA owner—regardless of AGI.

10. Why would I want to reduce the size of my IRA by making a transfer to ARI?

If you depend on distributions from your IRA for your livelihood, this opportunity is probably not the best option for you. But if you have sufficient income from other sources, reducing the size of your IRA—thereby reducing your future taxable income—can be a sound financial strategy. Some donors deliberately seek to lower their tax bracket via their support of ARI.

Above certain income levels, some donors also face deduction phase-outs (due to statutory limitations on charitable contributions and other deductions) that reduce the tax efficiency of their ARI support. IRA gifts can help solve this problem as well.

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11. How exactly is age 70.5 defined?

You reach age 70.5 six months after your 70th birthday, on the same day as your birthday. For example, if your 70th birthday was December 1, 2016, you will turn 70.5 on June 1, 2017.

12. The state where I live imposes a state income tax. Will my IRA gift be tax-free for state tax purposes as well as for federal?

That depends on the state. Consult your tax advisor regarding the state tax consequences of an IRA gift to the Institute.

13. Can an IRA gift to ARI help with estate taxes?

Yes. At your death, your remaining IRA assets will be included in your taxable estate. If your estate is subject to estate tax, reducing the size of your IRA could make a difference. The smaller your estate, the smaller the estate tax bill to your heirs.

In addition, at your death your IRA funds will be subject to income tax as well, further reducing the size of your heirs' inheritance. Regardless of whether you make a current IRA gift to ARI, naming the Institute as the death beneficiary will eliminate liability for both estate tax and income tax on your IRA.

14. I have already named the Institute as the death beneficiary of my IRA, and my taxes are already low. Why donate from my IRA now, since ARI will get the money anyway after I die?

Donating now provides more funds sooner in support of ARI's race against time to change the culture before it deteriorates further—and doing so allows you to see your dollars in action during your lifetime.

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15. If I conclude that I want to take advantage of the legislation, how do I go about executing a transfer from my IRA to ARI?

To make a QCD to the Institute, contact your IRA custodian to find out the requirements; many custodians now supply their own form for you to complete. If a self-generated letter of instruction from you is required, you are welcome to use our sample text (download and view the form in Adobe Acrobat or Adobe Reader) in preparing your letter—or, simply contact Donor Servic es at ARI and we will prepare the letter for you: 949-222-6550 ext 204 or donorservices@aynrand.org. To qualify as a tax-free distribution on your 2016 tax return, your QCD must be completed no later than December 31, 2016.

16. I have concluded that an IRA gift to the Institute is not compatible with my financial objectives. In what other ways can I support ARI?

You may contribute cash via check, credit card, or PayPal. Join our Electronic Funds Transfer program and make automatic contributions to ARI every month. Also, consider gifts of non-cash assets to obtain additional tax savings. To learn more about different ways to contribute to ARI, visit AynRand.org/donate or contact Donor Services at 949-222-6550 or donorservices@aynrand.org.

To support the Institute after your lifetime and participate in the Atlantis Legacy, name ARI as a beneficiary (primary or contingent) of your IRA or other retirement account, insurance policy, etc., and/or in your will—and consider other planned giving arrangements that offer supplementary income and tax advantages during your lifetime. For more information about the Atlantis Legacy, contact Gift & Estate Planning Manager Kathy Cross at 732-242-9408 or kcross@aynrand.org.

For more information about tax-free IRA gifts, contact Donor Services at 949-222-6550 ext. 204 or donorservices@aynrand.org.

Thank you for your support!

ARI is committed to providing donors with accurate and authoritative information about charitable contributions. However, we cannot render legal or tax advisory services, and the information presented is not intended to serve as legal or tax advice. We encourage donors to consult their own advisors regarding the tax and legal consequences of potential gifts. We are pleased to work with donors' advisors as well as our own to ensure the best result for all concerned.

The Ayn Rand® Institute is a 501(c)(3) non-profit organization recognized by the U.S. Internal Revenue Service. ARI's federal identification number is 22-2570926.