Pension Reform Act of 2006

November 1, 2006

As a donor, you have a new opportunity to make a gift to Child Care Resources from your individual retirement account (IRA) while also enjoying a federal tax benefit. Under the Pension Reform Act of 2006 you may be permitted to make tax-free contributions of IRA assets to a charitable organization.

If you are 70.5 years old or older, thanks to a law passed by Congress this past August, you may now be permitted to transfer money from your IRA tax-free, if the IRA trustee transfers the money directly from your account to a charity.

There are certain requirements, including:

1. The gift (maximum: $100,000 per year) must be an outright gift, not a planned or deferred gift.

2. You must be at least 70.5 years of age

3. The gift must be from your regular or Roth IRA, as opposed to another type of pension plan.

4. The amount you give must be otherwise taxable if distributed directly to you.

5. You may not receive any benefits in return (*e.g.*, preferential seating, banquet tickets, etc.)

6. You may make a gift in both 2006 and 2007.

7. The gift must be made directly to any qualifying public charity such as Child Care Resources. Gifts to donor-advised funds, supporting organizations or private foundations are not eligible.

8. You should notify the receiving charity about the transfer. The charity must send a receipt so the donor can show that the transfer was a “qualified charitable distribution.”

What does this mean for you?

Under prior law, withdrawals from IRAs for charitable gifts were taxable to the withdrawing donor. Now, if you are at least 70.5 years of age and have an IRA, you will be able to make a tax-free gift of up to $100,000 per year to a charity in both 2006 and 2007. Moreover, the amounts given to the charity under this provision will count in the amount that federal law requires you to withdraw every year from your IRA (the required minimum distribution). The new law greatly simplifies the process of making gifts from IRAs and assures that your gift will not increase your taxes. Your tax-free gift may be in payment of an existing pledge or a new gift.

Taking advantage of the new law will appeal especially to those

* Who are already giving at their deduction limit. The ceilings on contribution deductions do not apply to qualified IRA transfers.

* Whose income level causes the phase out of their exemptions or itemized deductions.

* Who do not itemize their deductions.

* For whom additional income will cause more of their Social Security income to be taxed.

* Who wish to remove up to $200,000 from their taxable estate.

* Who would like to avoid the certainty that the federal government will impose income taxes and the possibility that the state and federal governments will also impose estate taxes on IRA funds not distributed during your lifetime.

For more information, contact your accountant or Chief Development Officer, Tom Slattery, at 206-329-1011 x 207 or by email at slattery@childcare.org.

- *technical review courtesy of*
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