Of Charities and IRAs

Charitable giving in the U.S. rose 4.1% last year, reaching an all-time record of $373.25 billion. That's also a record in inflation-adjusted dollars, reports the Giving USA Foundation in its annual report on philanthropy. During the two-year period of 2014 and 2015, giving rose by double digits, 10.1%. Individuals, estates, foundations, corporations—all contributed to the robust growth in philanthropy.

How giving has grown

Charitable gifts from all donor groups rose smartly in 2015, reaching a new record. Individuals led the way, providing over 70% of the giving.

Donor group	2015 total giving (billions)	% increase from 2014
Individuals	$264.58	3.8%
Foundations	$58.46	6.5%
Estates	$31.76	2.1%
Corporations	$18.45	3.9%

Source: Giving USA Foundation and the Indiana University Lilly Family School of Philanthropy; M.A. Co.

Religious organizations are the largest beneficiaries of this giving, receiving $119.30 billion. Education comes in a distant second, at $57.48 billion, followed by human services with $45.21 billion.

The charitable IRA rollover

One reason for the growth in giving may be the growth in assets—as the stock markets touch new highs people can afford to be more generous. Prices were also strong in the art world, leading to an increase in donations of valuable artworks, books and manuscripts. Another factor might be that as top marginal tax rates have increased, the value of charitable deductions for top taxpayers has grown as well.

A popular charitable giving tax break has been made permanent, one that has been dubbed the "charitable IRA rollover." Those who are over age 70½ may want to consider the gift of a direct distribution from their IRAs. Up to $100,000 may be transferred to charity in this manner. Couples may transfer up to $200,000 if each partner has an IRA. In contrast to normal IRA distributions, amounts transferred directly to charity won't be included in ordinary income (and so no charitable deduction is appropriate).

The definition of who is permitted to take advantage of this tax strategy dovetails perfectly with those who are required to take required minimum distributions (RMDs) from their IRAs. So some taxpayers simply opt to direct their required minimum IRA distributions to charity, because the distribution requirement will be satisfied, even though the amounts distributed aren't included in taxable income.

Extra tax advantages

In some sense, the income tax exclusion for a transfer to charity from an IRA might not seem like such a big deal. After all, one always has been allowed to follow an IRA withdrawal by a charitable contribution and claim an income tax deduction. However, the full benefit of that deduction is not available to all taxpayers.

• *Nonitemizers.* There are a great many taxpayers who do not itemize their deductions, even in the upper tax brackets.

• *Big donors.* Percentage limits on the charitable deduction mean that some donors can't take a full charitable deduction in the year that they make a gift.

• *Social Security recipients*. An increase in taxable income may cause an increase in the tax on Social Security benefits for some taxpayers. The direct gift from an IRA avoids this problem.

Accordingly, if you are 70 ½, you should consider a charitable gift from your IRA if:

• You do not itemize tax deductions;

• Your charitable deductions have been maximized; or

• You do not need the additional income made necessary by your required minimum distribution.

As welcome as this tax planning opportunity is, every taxpayer's situation is unique. See your tax advisor before taking any action.

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