

# IRA Charitable Rollover

## ADVANTAGES OF MAKING AN IRA CHARITABLE ROLLOVER

The IRA rollover provision allows those age 70<sup>1/2</sup> to make gifts directly from their IRAs in a tax advantageous manner. This allows IRA owners who have attained age 70<sup>1/2</sup> to distribute money directly from the IRA to a qualified LCMS ministry (congregations, schools, local/national ministries, etc.). Total annual rollover from all IRAs cannot exceed \$100,000 for an individual. Spouses can each give up to \$100,000 with IRA rollovers.

Making an IRA rollover, as opposed to a normal charitable gift, has two main advantages. First, the rollover counts toward satisfying your required minimum distribution (RMD) for that year. Second, the distribution is excluded from your taxable income. It is this second advantage that greatly benefits under the new tax bill. With very few individuals expected to itemize (some estimates say around 5% of filers), the income tax deduction for contributions to ministry will be lost for many donors. However, if you make an IRA charitable rollover, you get a full exclusion of that income from taxes. So, if you are 70<sup>1/2</sup> or older, own an IRA, and are mission-minded, an IRA charitable rollover can really work out as a way to preserve an income-tax-reducing charitable deduction under the new tax law.



*Example:* John and Ann, both retired and in their seventies, give generously each year to their congregation and several charities. Their annual charitable giving usually amounts to \$17,000. In prior years, they have itemized their deductions on their tax return. Their charitable giving makes up the largest category of their itemized deductions, while their other itemized deductions only total \$6,000 (total itemized deductions of \$23,000). Because the standard deduction amount has increased to \$24,000, it is unlikely that they will continue to itemize.

John and Ann decided to use a charitable rollover from his IRA to donate the same \$17,000 to their congregation and several charities (John is required to take more than \$17,000 from his IRA as a required minimum distribution). As a couple, they receive a standard deduction of \$24,000, plus exclude the \$17,000 from the rollover from income, resulting in a tax benefit of \$41,000 against their adjusted gross income.

Last year in 2017, their itemized deductions totaled \$23,775, and of that \$17,000 were charitable donations. The couple's adjusted gross income received a tax benefit of \$23,775.

### NON-IRA FUNDING

*for gifts to ministry*

\$23,000 total itemized deductions

**compared to**

\$24,000 standard deduction

Tax Return = \$24,000 deduction

**Total Tax Benefit = \$24,000**

### IRA FUNDING

*for gifts to ministry*

\$6,000 total itemized deductions

**compared to**

\$24,000 standard deduction

Tax Return = \$24,000 deduction

\$17,000 IRA income excluded from tax return

**Total Tax Benefit = \$41,000**

# 2018 TAX REFORM

## HOW DID THE NEW TAX LAW CHANGE THE IRA CHARITABLE ROLLOVER?

The tax reform bill signed into law in December 2017 did not affect the IRA charitable rollover, but it did make changes that make the IRA charitable rollover even more attractive. Here are four ways the new tax law and current economic climate affect charitable giving:

1. The standard deduction almost doubled to \$24,000.00 for married couples (\$12,000 for single).
2. The deduction for state and local income, property and sales taxes is capped at \$10,000 total for all combined.
3. The deduction for interest paid on a home mortgage remains the same for existing mortgages, but the interest deduction for new mortgages is capped at \$750,000. The deduction for interest paid on a home equity loan incurred for something other than home improvement is eliminated.
4. The deduction for charitable contributions remains (but you will only be able to take advantage of this benefit if you itemize). For those who itemize deductions in 2018, the amount of charitable contributions that can be deducted each year for cash contributions increased from 50 percent to 60 percent of adjusted gross income.

With the increased standard deduction and the new limits on deductions, it is expected that fewer people will itemize and take advantage of the charitable deduction. That makes the IRA charitable rollover, which keeps the distribution out of your adjusted gross income, even more attractive.

## AVOIDING CAPITAL GAINS TAX ON GIFTS OF NON-CASH ASSETS

With the strong overall performance of investment markets, another tax-wise way to make your charitable gifts is to use appreciated assets. Donating appreciated assets avoids tax on any appreciation in the asset.

*Contact your LWML Gift Planning Counselor Linda Gage for more information on how to make the very best gifts to family and ministry. This resource is intended to provide information of a general character only, please consult your own tax/legal professional for advice regarding your particular situation.*

Gifts  
of  
Love

*Returning God's Blessings*



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