

The Win-Win of Tax Advantaged Charitable Giving

If you are retired or nearing retirement and were fortunate to build an Individual Retirement Account (IRA) and/or a stock portfolio, there are tax advantaged ways you can use those assets to donate to Iowa Legal Aid and other charities. Consider these three opportunities:

1. Use the IRA Charitable Rollover

If you are age 70 ½ or older, you can transfer up to \$100,000 annually from your IRA accounts directly to Iowa Legal Aid and other charities. These transfers count toward your Required Minimum Distributions (RMDs) and avoid recognizing ordinary taxable income on the transfer. While the transfers cannot be included in itemized deductions, reducing ordinary taxable income may allow you to deduct more medical and miscellaneous expenses. This strategy may also allow you to benefit if your remaining itemized deductions after your direct RMD transfer would be less than the Standard Deduction. Reducing your taxable income may also lower your Medicare Part B and prescription drug premiums.

2. Donate Appreciated Stock

Donating appreciated stock to Iowa Legal Aid provides double benefit – (1) you avoid capital gains taxes that would have resulted from selling the stock and (2) you can deduct the current value of the stock as a charitable contribution. To qualify, you must have owned the stock for at least one year. In addition, the total of your deductible annual stock and other noncash donations cannot exceed 30% of your adjusted gross income. If you believe the stock has potential and would still like to own it and have cash at your disposal, you can repurchase it after you donate your appreciated stock to ILA. This will provide you a higher tax basis in the newly purchased shares of stock. It's not complicated to donate stock to Iowa Legal Aid – see http://iowalegalaidfoundation.org/wp-content/uploads/2016/05/Making-a-Gift-of-Stock_combined-5-10-16-2.pdf.

3. Designate Iowa Legal Aid as an IRA Beneficiary

If your estate includes an IRA and appreciated stock and other assets, there are advantages to naming Iowa Legal Aid and other charities your IRA beneficiaries and giving the appreciated assets to your individual heirs. Individual heirs must treat IRA distributions as ordinary income when received. Conversely, individual heirs who receive appreciated assets from an estate receive two significant advantages: (1) the value of the assets is excluded from the recipients' taxable income and (2) the recipients' tax basis in the assets is the current value of the assets at the date of death. Your IRA administrator can advise you on structuring your accounts and beneficiaries to achieve your objectives.

NOTE: The opportunities described above are simplified descriptions of complicated areas of tax law. You should consult with a qualified tax advisor before executing any of the transactions described above.