



Community Foundation of Wabash County

We're here for giving. We're here for good.

Press Release

P.O. Box 98, 218 E. Main Street

N. Manchester, IN 46962

Phone: 260/982-4824

Fax: 260/982-8644

Website: www.cfwabash.org

E-mail: marketing@cfwabash.org

Contact: Maryhelen Chadwick (mhchadwick@yahoo.com)

Phone: 260-982-4824

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New Pension Law Also Provides for Charity

Provision Allows for Tax-free Charitable Transfers from IRAs

Since 1974, millions of Americans have saved billions of pre-tax dollars in Individual Retirement Accounts (IRAs). Thanks to continued savings and investment returns, an estimated \$3.6 trillion is currently invested in IRAs, and the total continues to grow. On August 17, the Pension Protection Act of 2006 (H.R. 4) was enacted allowing qualified IRA owners to share the wealth of their retirement savings by giving directly to charity—without first counting it as income and paying income tax.

Thanks to decades of deliberate saving and favorable investment returns, many of today's retirees have more money in their IRAs than they'll ever need. Some have expressed an interest in giving the funds to charity during their lifetime, but income tax must be paid on all withdrawals—sharply reducing the value of the gift. Others have asked about designating their children as beneficiaries, but that may draw additional tax consequences.

“For larger estates, a good portion of IRA wealth intended for heirs goes instead to estate taxes and income taxes,” Community Foundation of Wabash County (Foundation) Executive Director Steve Mason said. “Experts estimate that the heirs of some estates will receive less than 25% of IRA assets that pass through those estates.”

A provision in the new federal Pension Protection Act of 2006, signed by President Bush last week, creates a new option: a living donor can transfer assets directly from an IRA account to charity. By going directly to charity, the money is not included in the IRA owner's income and—most importantly—is not taxed, preserving the full amount for charitable purposes. The law covers all gifts made this year and next. In 2006 and 2007, holders of traditional and Roth IRAs who are at least 70 ½ years old at the time of the gift can make direct charitable transfers up to \$100,000 per year to a “qualified exempt public charity.”

Financial advisors and advocates for charitable giving have been monitoring the progress of this bill through the legislative process. The Foundation is a local resource for professional advisors and individuals interested in learning more about tax planning consideration for IRA assets.

The Community Foundation is a publicly supported philanthropic institution. Established in 1954, it serves Wabash County residents by implementing the charitable goals of citizens by making grants, investing and safeguarding charitable assets, and linking resources to address community needs. The Community Foundation of Wabash County is located at 218 E. Main St., North Manchester, Indiana.

Sources:

Steve Mason, Community Foundation of Wabash County Executive Director
 260-982-4824
 steve@cfwabash.org

IRA MARKET SHARES BY HOLDER, 2001-2005

(\$ billions, end of year)

By holder	2001	2002	2003	2004	2005
Commercial banking	\$160.1	\$165.6	\$166.0	\$168.0	\$170.5
Saving institutions	54.6	53.8	55.1	53.7	53.8
Credit unions	39.9	43.3	46.8	47.7	49.3
Life insurance companies	251.0	308.3	338.4	376.0	407.0
Money market mutual funds	172.0	190.0	171.0	153.0	162.0
Mutual funds	961.3	822.0	1,095.0	1,279.0	1,432.0
Other self-directed accounts	980.1	950.0	1,118.6	1,258.7	1,392.4
Total	2,619.0	2,533.0	2,991.0	3,336.0	3,667.0
Source: Board of Governors of the Federal Reserve System					

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