

Charities still awaiting tax provision's impact on giving

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A 2006 federal tax provision meant to encourage charitable contributions among seniors appears to be having little impact on Puget Sound area donations, although experts say contributions should pick up by the end of next year.

So far, the Pension Protection Act of 2006, which allows those who are 70½ and older to contribute to charity directly from their individual retirement accounts, has generated a relatively modest number and value of contributions as compared to overall giving.

Nonprofits and financial services providers say they are aware of only a handful of donations made this year. But many expect an uptick next year.

"We have not yet seen overwhelming numbers of these gifts," said Bill Zook, executive vice president of Seattle's Planned Giving Services, which advises nonprofits on how to secure planned gifts such as stock, real estate or donations from benefit plans. "I've heard from people who are waiting on 2007 before they give."

Signed into law in August, the Pension Protection Act is meant to update worker pension laws. A provision within the act, good only through 2007, allows those who are 70½ years old to make annual, nontaxable contributions of up to \$100,000 from their IRAs to qualifying charities and colleges.

Although the contribution isn't tax deductible, it does have some appeal to IRA account holders. The contribution isn't counted as income, so IRA holders don't have to pay taxes when they draw on the IRA to make the gift. Additionally, gifts count toward an account holder's required minimum distribution, so if a donor doesn't need the money, but must draw down the account, the IRA gift represents a way to take care of the needed withdrawal without paying taxes.

The rollover provision, which the charity lobby in Washington, D.C., has pushed for years, was lauded as a way to encourage donors to give more. Surveys by the Federal Reserve estimate that the IRA rollover gifts could amount to \$1 billion or more in 2006 and 2007.

Already, Puget Sound area donors are using the mechanism, albeit in small numbers.

University of Washington fundraisers report they have received four IRA rollover gifts this year totaling \$131,000.

"I know for sure we'll be getting a couple (contributions) early in 2007 when donors turn 70 and a half," said Albert Thurmond, UW's director of gift planning.

At **Pacific Lutheran University** near Tacoma, one donor has used the IRA rollover to give \$2,400 to the university and another person has committed to give \$100,000 next year, said Ed Larson, executive director of charitable estate planning at PLU.

The UW is projecting to finish its \$2 billion campaign in 2007; PLU is contemplating launching a campaign next year. And both universities are making potential donors aware of the IRA option.

Aimée Huff, a certified financial adviser with wealth manager **MWBoone and Associates** in Bellevue, said a handful of her firm's clients are exploring the IRA gift option, and at least one plans to use it.

"For the right people, it absolutely makes good tax sense," Huff said.

Those people don't have to be particularly wealthy, although that helps, Huff said. While those most likely to use the provision are people with strong IRAs, such as doctors, lawyers and business executives, the provision also can be used by seniors with multiple income streams such as pensions and Social Security.

Despite the flexibility for wealthy and nonwealthy alike, the plan's age restriction limits those who can use it, since nonpenalized IRA benefits start at 59½ years of age. However, those 70½ years old account for a significant portion of total giving.

According to a 2005 report based on federal data and published by the Center on Wealth and Philanthropy at Boston College, retired households constitute 69 percent of total charitable contributions. Of the 21.5 million retired households that contributed data to the study, the average age was 73.

The IRA plan has the potential to spur donors to give sooner instead of willing away their money to

be given after death, but because the law is only good through 2007, it is not likely to have a significant impact, Huff said.

"I think that if we would see any major impact on giving it would have to be made permanent," Huff said.

Nolan Newman, a certified public accountant and partner with **Newman Dierst Hales PLLC**, who advises individuals and several nonprofit health care organizations, said he is seeing donors getting off to a slow start using the IRA gift provision.

"I think there are people expressing more interest in it (for next year)," Newman said. Newman says tax policy can be a strong catalyst for charitable giving, but that the "jury is still out" whether the IRA plan will actually increase giving or simply become a different path for donors to channel their regular level of charitable contributions through.

"The facts will determine how effective it is," he said.

