

Pension Act

Congress passed the Pension Protection Act of 2006 (Pension Act) and it was signed into law on August 16, 2006 by President Bush. Due to its name many people think the Pension Act only covers topics related to pension plans. This is not true the Pension Act includes a number of charitable provisions that may affect your tax planning.

New Rules for Cash Contributions

The Pension Act adds a new provision that denies a charitable deduction for any contribution of cash, check, or other monetary gift unless you can provide a cancelled check, bank record, or a written communication from the charity showing the name of the charitable organization, the date of the contribution, and the amount of the contribution. This means that cash contributions you make to the church in the collection plate or to the Salvation Army ringers will not be allowed by the IRS unless you have one of the above documents to substantiate the contribution. This will lead to additional administrative duties for charitable organizations as they try to meet the new requirements and provide their contributors with receipts no matter what the size of their contribution. This change is effective for tax years beginning after August 17, 2006.

Non Cash Contributions

The Pension Act also disallows deductions for charitable contributions of clothing and household items that are in less than "good condition". The law does not define "good condition". I would interpret this to mean no more write-offs for "junk". Household items include furniture, furnishings, electronics, appliances, linens, and other similar items. Why has this occurred, well according to the IRS individuals reported non-cash contributions in tax year 2003 (the most recent year that information is available for) of \$36.9 billion. Forty eight percent of these contributions were for clothing. Leading me to believe that congress feels that these numbers are inflated and that they need to get them under control. This change is effective for tax years beginning after August 17, 2006.

Direct IRA Contributions

A benefit of The Pension Act is the provision that allows taxpayers who are age 70½ or older to take IRA distributions up to \$100,000 per year free from federal income taxes when the funds are paid out **directly** to a qualifying tax-exempt charity. These charitable contributions will be counted towards the taxpayer's required distribution for the current tax year. Because this qualified charitable distribution is free from federal income taxes, you do not receive any federal income tax deduction. However, tax free treatment for the distribution is effectively the same as a 100% write-off. The new rule benefits seniors who do not itemize as well as seniors who have their charitable deductions limited due to other statutory regulations. This favorable new rule applies for tax years 2006 and 2007.

This article is intended as an introduction to this information and not an all-inclusive reference. It is not intended to take the place of professional advice. In addition, it is subject to change without notice by Internal Revenue Service, the courts, and our Congress.

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