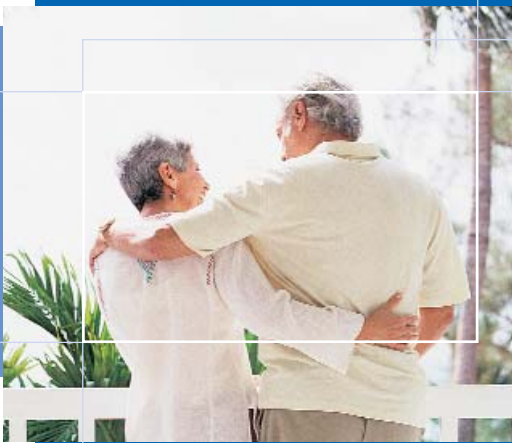


# The Pension Protection Act

*New Tax Laws  
and Your IRA*



# How the Pension Protection Act Could Impact You ...

*New laws may provide one of the most significant changes to the way you think about your gifts to charity.*

Favorable new tax laws reflect the importance of charity in our society. Among other things, for a limited time, the new laws permit certain tax-free distributions from traditional and Roth IRAs to qualified charities for a limited time.

## The Impact on IRAs

Under previous law, there was no incentive to encourage transfers from IRAs to charities. In fact, under previous tax laws, supporters may have been discouraged from making such a gift. Now, the tax-free alternative for IRA rollovers to charity provides taxpayers access to new resources to support the causes they care about while increasing benefits for themselves.



## Ideal for a Variety of Situations

Because of the Pension Protection Act, your IRA could be the most **tax-efficient** asset for charitable contributions in a variety of situations.\*

- There is no income limitation. A taxpayer's deduction for charitable gifts is typically limited to 50 percent of adjusted gross income (the deduction can be carried over for five years).
- Supporters who typically use the standard income tax deduction versus itemizing deductions on their tax return can realize otherwise unavailable tax savings.
- Social security recipients who also receive income from IRAs can save substantial income taxes.
- This may be the perfect opportunity for anyone who has considered making a major gift.

Best of all, in any situation, it's a **simple** way to make a contribution and reduce tax liability.

*\* Immediate tax-free IRA charitable rollover incentives available to supporters age 70½ or older. This opportunity is available through December 31, 2007.*

## Potential Benefits to You

By using a portion of an IRA to arrange a charitable gift, our supporters can accomplish several important financial goals. You can:

- **Decrease your income tax** by donating a portion of your IRA outright before December 31, 2007.
- **Reduce or eliminate potential estate taxes** by removing the asset from your taxable estate.
- **Decrease the potential tax burden on your heirs** by passing on different assets that may require fewer taxes upon distribution.
- **Establish your personal legacy** by supporting the lifesaving work of the American Cancer Society, helping in the fight against cancer.

**Look inside for important information about your retirement plan.**

# Frequently Asked Questions About Retirement Plans

## How is my retirement plan any different than my other assets?

IRAs are not treated in the same manner as the rest of the property in your estate and may be subject to both income AND estate taxes. Unlike most assets, heirs other than a spouse or charity must pay income tax at their own income tax rate on the value of inherited retirement assets. Heirs are also responsible for potential estate taxes on the full value of the retirement plan assets upon distribution. There are four types of federal taxes that can affect retirement plan benefits:

1. Penalty Tax on Early Distributions
2. Penalty Tax on Failure to Meet Required Minimum Distributions
3. Income Tax
4. Estate Tax

## What happens if I start distributions early?

Penalties apply to premature distributions – those taken prior to age 59½. There are a few exceptions for some plans, such as using some funds to buy a first home. For the most part, any withdrawal from retirement plans before age 59½ incurs a 10 percent penalty tax.

## What is the 50 percent penalty tax?

Not only are you penalized if you start distributions too early, you can also be penalized if you don't withdraw enough when you are supposed to. One of the largest penalties that can be applied to an IRA is the 50 percent penalty tax on "failure to meet minimum distribution requirements." This is a penalty tax for taking your distribution "too little" or "too late" from a retirement plan. If the amount distributed does not meet minimum standards, the difference in what was distributed and what should have been distributed is taxed at 50 percent.

## How can retirement plans be taxed twice?

If you leave retirement assets to anyone except your spouse or qualified charity, then those assets can be taxed twice. The distribution can first be taxed as ordinary income to the beneficiary. The value of the plan when distributed (before income taxes are deducted) is also subject to applicable estate taxes.

For example, if your \$100,000 retirement plan is transferred in lump sum to an heir who is in the 25

percent income tax bracket, they essentially receive just \$75,000 after paying \$25,000 in income taxes. Additionally, if your estate is subject to estate taxes, then your estate will also owe taxes (up to 46 percent) on the retirement plan assets.

## Can I just roll it over to avoid taxes?

Often the way to avoid taxation on premature distributions of IRAs and other retirement plans is to roll over the funds into another qualified plan. The beneficiary will still be subject to required minimum distribution rules that apply to inherited IRAs, but this can help defer their tax liability.

Additionally, if you designate a qualified charity as beneficiary, the organization does not incur taxes on the gift and your estate will receive a charitable deduction for the amount of the gift.

## Can I change my retirement plan beneficiaries through my will?

People often assume that retirement plan benefits pass under the terms of a person's will. They do not. They pass outside the will by beneficiary



*Proper planning can help conserve your retirement assets for family and other loved ones.*

designation, just as the proceeds of a life insurance policy. This often overlooked fact makes careful planning even more important.

## How can I reduce or eliminate taxes on my retirement plan?

Although little about retirement plans is simple, there are a number of basic ways to begin to tackle the potential pitfalls of retirement plans and reduce or even eliminate the four potential federal taxes on IRAs. We can show you some creative solutions based on your specific situation that could help benefit you or your family.

## *An Example: How Betty Benefits from the Pension Protection Act*

Betty has \$400,000 in an IRA she and her late husband began a number of years ago. In three months she will be 70½ years old and she is now required to begin taking minimum 10% distributions every year from the IRA - or \$40,000 this year. Betty lives on a pension, social security, and income from a few modest investments. She is concerned that taxes will eat up increases as quickly as income goes up.

Under the new law, Betty can rollover up to \$100,000 from her IRA per year (until December 31, 2007) to a qualified charity such as the American Cancer Society. She will be able to exclude this amount from her gross income. This significantly offsets Betty's tax liability this year and reduces the IRA's size which lessens future distribution requirements. This can also reduce her future tax liability.

Betty had already planned to leave a gift to the Society in her will, but this new legislation gives her the opportunity to make a donation now that will help save taxes. Betty chooses to leave her heirs different assets that require less taxation when inherited, thereby passing more to loved ones and decreasing potential estate tax liability. Best of all, Betty creates a legacy to help us save lives. She will help bring us all closer to a cancer-free future.

This arrangement helps Betty achieve numerous goals:

- Betty significantly reduces her income tax liability this year.
- She removes the donated portion of the IRA from her estate so she can leave more tax-advantaged assets to her heirs.
- Betty makes a significant contribution to our mission through a simple, beneficial process.

Betty worked with a charitable planning specialist from the American Cancer Society and her own tax advisor to help determine what was best for her specific situation to meet her goals. To actually make the contribution, she instructed the trustee of her IRA to transfer the contribution directly to the Society. To learn if you can benefit from this temporary law change, contact us today for more information. There is absolutely no cost or obligation for our free charitable planning services.

**Contact us today to learn more.**

## How can I use my retirement plan to fight cancer?

You can make future charitable gifts from your IRA by including the American Cancer Society as a beneficiary of any retirement plan assets, including Roth and traditional IRAs, Keoghs, 401(k)s, or other plans. If you decide to include the American Cancer Society as a beneficiary of your IRA assets, please designate a percentage of the benefits, not a dollar amount, so that the donor's estate does not incur taxes on the gift. Please contact your retirement plan administrator for a beneficiary designation form.

New tax laws also provide special benefits for current gifts to the Society from a traditional or Roth IRA through December 31, 2007. Contact us to learn how to arrange this type of gift.

### *Proper charitable planning can make all of these possible ...*

- Increase current income
- Decrease current income taxes
- Eliminate capital gains taxes
- Reduce or eliminate possible estate taxes
- Conserve assets for family and loved ones
- Diversify and professionally manage assets
- Make a significant contribution in the fight against cancer

## Free Charitable Planning Services

When it comes to reviewing your retirement plan – possibly the biggest asset you own – the value of competent and thorough information cannot be overestimated.

That is why the American Cancer Society provides resources to help you sort through the maze that planning often presents. No matter how simple or complex your situation may be, we can help you review your plans to make sure you avoid potential hazards and make the most of your hard-earned assets.

And if you want to include a gift to support the lifesaving work of the American Cancer Society, we can help you find the most beneficial way to do that also. But it's not a requirement of our services in any way. To find out ways you could save on income, capital gains, and potential estate taxes, contact the representative in your community by calling toll free 1-877-227-0133.



toll free 1.877.227.0133  
[www.cancer.org](http://www.cancer.org)

**Hope.Progress.Answers.®**

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