



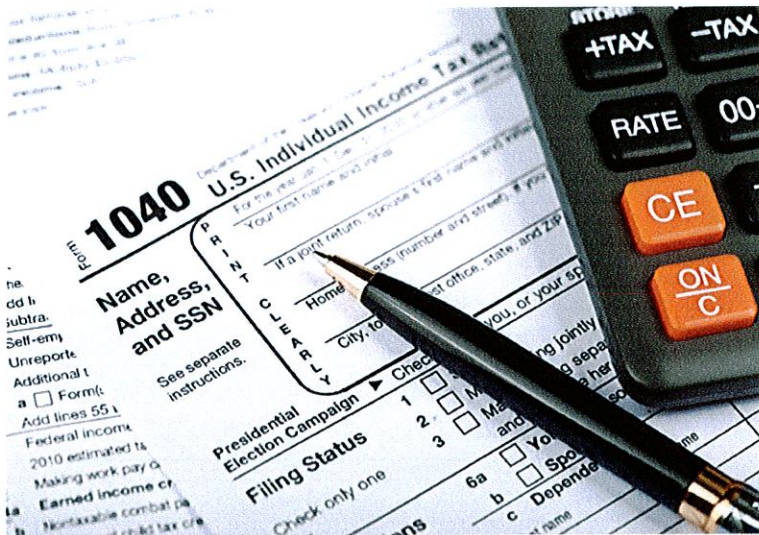
Tax Guy

Nov. 7, 2013, 7:06 a.m. EST

## More tax moves to make before Christmas

It's time to take steps to reduce your 2013 tax bill

By Bill Bischoff



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With the end of the year approaching, it's time to make some moves to lower your 2013 tax bill. This is the second installment of our two-part series on that subject ([also see: Tax moves to make before Christmas](#)).

### Strategy: Prepay Deductible Expenditures

If you itemize deductions, accelerating some deductible expenditures into this year to produce higher 2013 write-offs makes sense if you expect to be in the same or lower tax bracket next year. (See the tables at the end of this column for the 2013 and 2014 federal income tax brackets.)

**January House Payment:** Accelerating the house payment that's due in January will give you 13 months' worth of deductible interest in 2013 (unless you've already been following the prepayment drill). You can use the same strategy with a vacation home.

**State and Local Taxes:** Prepaying state and local income and property taxes that are due early next year can reduce your 2013 federal income tax bill, because your total itemized deductions will be that much higher.

**Charitable Donations:** Prepaying charitable donations that you would otherwise make next year can reduce your 2013 federal income tax bill, because your total itemized deductions will be that much higher. Donations charged to credit cards before year-end will count as 2013 contributions.

**Medical Expenses and Miscellaneous Deduction Items:** Consider prepaying expenses that are subject to deduction limits based on your AGI. The two prime candidates are medical expenses and miscellaneous itemized deductions. As explained earlier, medical costs are deductible only to the extent they exceed 10% of AGI for most people. However, if you or your spouse will be 65 or older as of year-end, the deduction threshold is a more-manageable 7.5% of AGI. Miscellaneous deductions—for investment expenses, job-hunting expenses, fees for tax preparation and advice, and unreimbursed employee business expenses—count only to the extent they exceed 2% of AGI. If you can bunch these kinds of expenditures into a single calendar year, you'll have a fighting chance of clearing the 2%-of-AGI hurdle and getting some tax savings.

**Warning: Prepaying Is Not a No-Brainer:** The prepayment strategy can backfire if you will owe the alternative minimum tax (AMT) for this year. That's because write-offs for state and local income and property taxes are completely disallowed under the AMT rules and so are miscellaneous itemized deductions. So prepaying these expenses may do little or no tax-saving good for AMT victims. Solution: ask your tax adviser if you're in the AMT mode before prepaying taxes or miscellaneous deduction items.

### Strategy: Make Major Year-end Purchases and Deduct Sales Taxes

If you live in a state with low or no personal income taxes, consider making the choice to deduct state and local general sales taxes instead of state and local income taxes on your 2013 return. Most people who choose the sales tax option will use an IRS-provided table to calculate their allowable sales

tax deduction. However, if you've hoarded receipts from your 2013 purchases, you can use your actual sales tax amounts if that results in a bigger write-off.

Even if you're stuck with using the IRS table, you can still deduct actual sales taxes on a major purchase such as a motor vehicle (car, truck, SUV, van, motorcycle, off-road vehicle, motor home, or recreational vehicle), a boat, an aircraft, a home (including a mobile prefabricated home), or a substantial addition to or major renovation of a home. You can also include state and local general sales taxes paid for a leased motor vehicle. So making a major purchase (or motor vehicle lease) between now and year-end could give you a bigger sales tax deduction and cut this year's federal income tax bill.

Remember: the sales tax write-off only helps if you itemize. And if you're hit with the AMT, you'll lose some or all of the tax-saving benefit.

**Strategy: Prepay College Tuition**

If your 2013 AGI allows you to qualify for the American Opportunity college credit (maximum of \$2,500) or the Lifetime Learning higher education credit (maximum of \$2,000), consider prepaying college tuition bills that are not due until early 2014 if that would result in a bigger credit on this year's Form 1040. Specifically, you can claim a 2013 credit based on prepaying tuition for academic periods that begin in January through March of next year.

- The American Opportunity credit is phased out (reduced or completely eliminated) if your modified adjusted gross income (MAGI) is too high. The phase-out range for unmarried individuals is between MAGI of \$80,000 and \$90,000. The range for married joint filers is between MAGI of \$160,000 and \$180,000. MAGI means "regular" AGI, from the last line on page 1 of your Form 1040, increased by certain tax-exempt income from outside the U.S. which you probably don't have.
- Like the American Opportunity credit, the Lifetime Learning credit is also phased out if your MAGI is too high. However, the Lifetime Learning credit phase-out ranges are much lower, which means they are much more likely to affect you. The 2013 phase-out range for unmarried individuals is between MAGI of \$53,000 and \$63,000. The 2013 range for married joint filers is between MAGI of \$107,000 and \$127,000.

If your MAGI is too high to be eligible for the Lifetime Learning credit, you might still qualify to deduct up to \$2,000 or \$4,000 of college tuition costs. If so, consider prepaying tuition bills that are not due until early 2014 if that would result in a bigger deduction on this year's Form 1040. As with the credits, your 2013 deduction can be based on prepaying tuition for academic periods that begin in the first three months of 2014.

**Strategy: Give to Charity**

If you have charitable instincts, here are two suggestions.

**Donate Appreciated Stock; Sell Losers and Donate Cash:** If you have appreciated stock or mutual fund shares (currently worth more than you paid for them) that you've held in a taxable brokerage firm account for over a year, consider donating them, instead of cash, to IRS-approved charities. You can generally claim an itemized charitable deduction for the full market value at the time of the donation and avoid any capital gains tax hit. On the other hand, don't donate loser stocks. Sell them, book the resulting capital loss, and donate the cash sales proceeds. That way, you can generally deduct the full amount of the cash donation while keeping the tax-saving capital loss for yourself.

Remember: you must itemize deductions to gain any tax-saving benefit from charitable donations, except for donations out of an IRA, as explained immediately below.

**If You've Reached Age 70 1/2: Donate from Your IRA:** You can make up to \$100,000 in cash donations to IRS-approved charities directly out of your IRA, if you'll be 70 1/2 or older by year-end. Such direct-from-your-IRA donations are called qualified charitable distributions, or QCDs. Because they are tax-free, and no deductions are allowed for them, QCDs don't directly affect your tax bill. However, they count as withdrawals for purposes of meeting the required minimum distribution (RMD) rules that apply to your traditional IRAs after age 70 1/2. So you can avoid taxes by arranging for tax-free QCDs in place of taxable RMDs. Note that the QCD privilege will expire at the end of this year unless Congress extends it.

**Don't Overlook Estate Planning**

For 2013, the unified federal gift and estate tax exemption is a relatively generous \$5.25 million, and the federal estate tax rate is a historically reasonable 40%. Even if you already have an estate plan, it may need updating to reflect the current estate and gift tax rules. You may also have state estate tax issues that need to be addressed. Finally, you may need to make some changes for reasons that have nothing to do with taxes (births, deaths, and so forth). Contact your estate planning pro if you think your plan might need a tune-up. Year-end is a good time to do it.

**2013 Federal Tax Parameters**

Income tax brackets	Single	Joint	Head of household
10% tax bracket	\$0-8,925	\$0-17,850	\$0-12,750
Beginning of 15% bracket	8,926	17,851	12,751
Beginning of 25% bracket	36,251	72,501	48,601
Beginning of 28% bracket	87,851	146,411	125,451
Beginning of 33% bracket	183,251	223,051	203,151
Beginning of 35% bracket	398,351	398,351	398,351
Beginning of 39.6% bracket	400,000	450,000	425,000
	Single	Joint	Head of household
Standard deduction	\$6,100	\$12,200	\$8,950
Personal/dependent exemption	3,900	3,900	3,900

**Estimated 2014 Federal Tax Parameters (IRS hasn't yet released official numbers)**

Income tax brackets	Single	Joint	Head of household
10% tax bracket	\$0-9,075	\$0-18,150	\$0-12,950
Beginning of 15% bracket	9,076	18,151	12,951
Beginning of 25% bracket	36,901	73,801	49,401
Beginning of 28% bracket	89,351	148,851	127,551
Beginning of 33% bracket	186,351	226,851	206,601
Beginning of 35% bracket	405,101	405,101	405,101
Beginning of 39.6% bracket	406,751	457,601	432,201
	<b>Single</b>	<b>Joint</b>	<b>Head of household</b>
Standard deduction	\$6,200	\$12,400	\$9,100
Personal/dependent exemption	3,950	3,950	3,950

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ASK DOW JONES

# IRA Charitable Transfer Is Good Through 2013

*Give up to \$100,000 to a charity without tax consequences.*

By TOM HERMAN

June 29, 2013 10:11 p.m. ET

**Q: Is the provision that allows you to make charitable contributions out of retirement accounts still operative in 2013?**

**R.S., Highlands Ranch, Colo.**

A: Yes. But that law has been extended "only through the end of this year," says Ed Slott, an IRA expert and a certified public accountant in Rockville Centre, N.Y. Nobody knows what this provision's fate will be after this year—though it enjoys strong support among charities and in Congress.

Under this provision, those who are 70½ or older can give away as much as \$100,000 a year from their individual retirement accounts directly to eligible charities without having to include any of the transfer as part of their gross income. The transfer must be made directly from the IRA to the organization.

Transfers count toward that person's required minimum distribution for the year.

Some people mistakenly think this law applies to both IRAs and 401(k) plans. "It applies only to IRAs," says Barbara Weltman, a tax expert in Vero Beach, Fla., and the author of numerous tax and personal-finance books. An Internal Revenue Service spokesman in Washington confirms that 401(k) plans aren't eligible.

Taxpayers can't deduct any such transfers as charitable donations on their federal income-tax returns. Even so, this provision can be a tax-efficient technique. Since transfers aren't counted as part of adjusted gross income, this provision helps prevent "possible side effects," such as "the loss of itemized tax deductions, phaseout of personal exemptions or credits, additional portions of Social Security being taxable or even the imposition of the new 3.8% surtax on investment income," says Mr. Slott.

For more information, search for "qualified charitable distributions" on the IRS website ([www.irs.gov](http://www.irs.gov)) and look for IRS news release IR-2013-6, dated Jan. 16, 2013.

—Send your questions to us at [askdowjones.sunday03@wsj.com](mailto:askdowjones.sunday03@wsj.com) and include your name, address and telephone number. Questions may be edited; we regret that we cannot answer every letter.

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## **IRA Charitable Rollover**

*Revised January 6, 2013*

The Pension Protection Act of 2006 (PPA) permitted individuals to roll over up to \$100,000 from an individual retirement account (IRA) directly to a qualifying charity without recognizing the assets transferred to the qualifying charity as income. While this initial provision expired on December 31, 2007, it has been extended several times. On January 2, 2013, President Obama signed the American Taxpayer Relief Act of 2012 (H.R. 8) into law, extending the provision until December 31, 2013. Note that the new law simply extends the charitable rollover and, other than some modifications regarding timing for 2012 distributions, did not make substantive changes to the operations of the provision.

### **What is an IRA charitable rollover?**

The law uses the term “qualified charitable distribution” to describe an IRA charitable rollover. A qualified charitable distribution is money that individuals who are 70½ or older may direct from their traditional IRA to eligible charitable organizations. The provision has a cap of \$100,000 for charitable distributions from individual IRAs each year. Individuals may exclude the amount distributed directly to an eligible charity from their gross income.

### **What is the new expiration date of this provision?**

This provision is still time-limited. It applies only to qualified charitable distributions made before January 1, 2014.

### **Can donors still take advantage of the IRA charitable rollover for 2012?**

Although the most recent extension was enacted on January 2, 2013, it was retroactive, dating back to January 1, 2012.

The extension allows individuals who received an IRA distribution in December 2012 to elect to count that distribution (or a portion thereof) as a 2012 IRA charitable rollover if the individual transfers the amount in cash before February 1, 2013, to an eligible charity described below.

Additionally, the extension allows donors to make distributions directly to eligible charities before February 1, 2013, and elect to have such distributions treated as qualified charitable distributions in 2012. Recognizing that the extension of the IRA charitable rollover provision occurred in 2013, this change may be a particular benefit to donors who would like to take advantage of the rollover in both 2012 and 2013.

For additional information on retroactivity, see [Retroactivity Explained](#) below.

### **Does a donor also receive a charitable deduction when they roll over assets to a charity under this provision?**

No. Under this provision, donors benefit by not having to recognize the amount contributed directly from their IRA to a qualifying charity. However, because donors exclude this contribution from their

gross income, they cannot take a charitable contribution deduction for the contribution; to do so would result in a double benefit for donors and that is explicitly prohibited.

### **To which charities may donors make qualified charitable distributions?**

Most contributions to public charities – other than supporting organizations – are considered qualified charitable contributions. However, distributions from IRA accounts to donor advised funds held by public charities are not considered qualified charitable distributions under this charitable rollover provision. (See [What is a donor advised fund?](#) on the Council's website.)

Individuals can make qualified charitable distributions to a private operating foundation or to a private foundation that elects to meet the conduit rules in the year of the distribution (see [Definitions](#), below). Neither private non-operating foundations nor split interest trusts are eligible for special treatment as qualified charitable distributions under the law.

### **Will an IRA distribution to a fund held by a community foundation qualify for this special treatment?**

Yes, distributions to almost all types of funds typically held by community foundations – such as scholarship, field-of-interest, and designated funds – qualify. The exception to this general statement is that a distribution to a donor advised fund will not qualify for this special treatment.

### **What if donors want to contribute more than \$100,000 to a qualified charity from an IRA?**

The law limits the amount that donors are able to exclude from their income to \$100,000. If donors wish to take funds from their IRA to contribute more than \$100,000 to charity, they cannot exclude the additional amount from their gross income. Rather, they must follow the general rules pertaining to percentage limitations and itemized contribution reductions. (Both are discussed below.)

### **Can donors contribute IRA assets to a donor advised fund?**

Yes. However, since such distributions do not count as qualified distributions from IRAs under these special rules, donors will have to first recognize those distributions as income. They then must calculate their charitable deduction according to the general rules pertaining to percentage limitations and itemized contribution reductions discussed below.

### **Under what circumstances will this special treatment of an IRA charitable rollover most likely benefit donors?**

Generally, this new provision benefits donors who itemize deductions and whose charitable contributions are reduced by the percentage of income limitation. Traditionally, when individuals receive a distribution from their IRA and make a corresponding charitable contribution, they must count the distribution as income and then receive a charitable deduction for any amounts they transferred to charity. For higher income taxpayers (see [Definitions](#), below), the charitable contribution deduction they receive may not totally offset the taxes they must pay for receiving the distribution from their IRA. In such cases, donors would potentially benefit more by using the charitable rollover provision when making a charitable donation.

Other donors who may benefit: individuals who do not usually itemize their deductions and individuals in states where the operation of state income tax law would offer greater benefits as a result of a charitable rollover. Donors will need to work with their professional advisers to determine the effect of these rules on their specific tax situation.

### Itemized Deduction Reduction

In 2013, higher income taxpayers will again be required to reduce their itemized deductions by 3 percent of the amount by which their income exceeds a certain amount. This reduction of itemized deductions is often referred to as the Pease Limitation.

Taxpayers subject to the reduction can lose up to 80 percent of the value of their deductions because most itemized deductions must be reduced by 3 percent of the amount by which the taxpayer's income exceeds a certain amount [which is adjusted annually for inflation]. For 2013, the threshold is \$250,000 for individuals, \$275,000 for heads of households, and \$300,000 for married couples filing jointly. A large transfer from an IRA can increase a taxpayer's income to the point where this 3 percent reduction applies.

Example: In 2013, a married couple filing jointly has \$500,000 in adjusted gross income (AGI). Because the couple's AGI exceeded the \$300,000 threshold, the 3 percent reduction will apply to the couple's itemized deductions.

AGI	\$500,000
Excess of couple's AGI over \$300,000	\$200,000
3% reduction	x 3%
	—————
Reduction of itemized deductions	\$6,000

The couple's itemized deductions will be reduced by the lesser of \$6,000 or 80% of the itemized deductions.

### Private Foundation Conduit Rules

A private foundation may elect to meet the conduit rules and pay out 100 percent of the contributions the foundation received in its tax year by the 15th day of the third month after the close of that tax year, in addition to meeting its regular 5 percent distribution requirements. A private foundation may elect to be or not to be a conduit private foundation from year to year.

While a private non-operating foundation generally cannot receive a qualified charitable contribution from an IRA, a private non-operating foundation that elects to meet the conduit rules may receive such contributions.

### Retroactivity Explained

#### Who can take advantage of the retroactivity to January 1, 2012?

The law is retroactive to January 1, 2012, but the retroactivity only applies for donors who directed an IRA distribution directly to charity in 2012 or who meet the special rules for December distributions described below. Some professional advisers advocated in 2012 for individuals to direct IRA distributions directly to charity in hopes that the IRA charitable rollover would be extended again. The professional advisers made this recommendation because there was relatively little downside if the donor's inclination was to make the charitable gift regardless of whether it received the favorable

treatment of the IRA charitable rollover. The rationale was that if an individual made the IRA distribution directly to an eligible charity and the IRA rollover was enacted retroactively later in the year, the individual could treat it as an IRA charitable rollover. The rationale continued that if the IRA charitable rollover was not enacted retroactively, the individual would just treat the IRA distribution as income and take a corresponding charitable deduction.

**Who is eligible to treat IRA distributions made January 1–November 30, 2012, as an IRA charitable rollover?**

Individuals whose IRA distributions were made directly to an eligible charity may treat the distribution as a 2012 IRA charitable rollover. All of the regular restrictions applicable to IRA charitable rollovers regarding age and limits still apply. Individuals who personally received the distribution from their IRA rather than directing the distribution to an eligible charity may **not** treat the distribution as a 2012 IRA charitable rollover.

**Who is eligible to treat IRA distributions made December 1– December 31, 2012, as an IRA charitable rollover?**

Individuals whose IRA distributions were made directly to an eligible charity (and met all other requirements) may treat the distribution as a 2012 IRA charitable rollover. In addition, individuals who personally received an IRA distribution in December 2012 may treat that distribution (or a portion thereof) as a 2012 IRA charitable rollover **if** the individual transfers the amount in cash to an eligible charity by January 31, 2013. The Treasury Department and IRS may issue guidance regarding the details of such transfers. If such guidance is issued, we will update you.

**What IRA distributions made January 1–January 31, 2013, count as a 2012 IRA charitable rollover?**

Individuals whose IRA distributions are made directly to an eligible charity (and meet all other requirements) may treat the distribution as a 2012 IRA charitable rollover.

**DISCLAIMER**

*This information is based on our continuing analysis of the relevant legislation and regulations. We make every effort to ensure accuracy of this document. The information is not a substitute for expert legal, tax, or other professional advice, and we strongly encourage grantmakers and donors to work with counsel to determine the impact of this legislation on their particular situations. This information may not be relied upon for the purposes of avoiding any penalties that may be imposed under the Internal Revenue Code.*





## Charitable Donations from IRAs for 2012 and 2013

The American Taxpayer Relief Act of 2012 (ATRA) extended the qualified charitable distribution (QCD) provisions for 2012 and 2013. Several special transition rules were included in ATRA to enable taxpayers to have a donation made before February 1, 2013, treated as a 2012 QCD.

A QCD is an otherwise taxable distribution from an IRA (other than an ongoing SEP or SIMPLE IRA) owned by an individual who is age 70½ or over that is paid directly from the IRA to a qualified charity. An IRA owner can exclude from gross income up to \$100,000 of a QCD made for a year, and a QCD can be used to satisfy any IRA required minimum distributions (RMDs) for the year. Also, the amount of a QCD excluded from gross income is not taken into account in determining any deduction for charitable contributions. (See [Notice 2007-7](#), Section IX, for additional information on QCDs.)

### 2012 QCDs Made in January 2013

An IRA owner can treat a contribution made to a qualified charity in January 2013 as a 2012 QCD in either of the following circumstances:

- The contribution is a cash contribution to the charity of all or a portion of an IRA distribution made to the IRA owner in December 2012, provided that the contribution would have been a 2012 QCD if it had been paid directly from the IRA to the charity in 2012.
- The contribution is paid directly from the IRA to the charity, provided that the contribution would have been a 2012 QCD if it had been paid in 2012.

IRA owners should keep records to substantiate the timing of contributions and distributions regarding any 2012 QCD made in January 2013.

A QCD made in January 2013 that is treated as a 2012 QCD will satisfy the IRA owner's unmade 2012 RMD if the amount of the QCD equals or exceeds the 2012 RMD. However, no part of such a QCD can be used to satisfy the 2013 RMD, even if the 2012 RMD had already been made. In determining the RMD for 2013, the 2012 QCD must be subtracted from the December 31, 2012, IRA account balance(s).

### Reporting

*Form 1099-R* – IRA trustees must report distributions as follows:

- Distributions made in 2012 are reported on a 2012 *Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*; and
- Distributions made in 2013, including any 2012 QCDs made in January 2013, are reported on a 2013 *Form 1099-R*.

*Form 1040* – IRA owners must report 2012 QCDs made in January 2013 on their 2012 *Form 1040* by:

- including the full amount of the 2012 QCD (even if in excess of \$100,000) on line 15a; and
- not including any amount on line 15b, but writing "QCD" next to line 15b.

Note. A 2012 QCD made in January 2013 must also be reported on the IRA owner's 2013 *Form 1040*. These reporting requirements will be reflected in the 2013 Instructions for *Form 1040*.

IRA owners must file a 2012 *Form 8606, Nondeductible IRAs*, with their 2012 *Form 1040* if:

- the 2012 QCD was from a traditional IRA, there was basis in the IRA owner's traditional IRA(s), and the IRA owner received a distribution from a traditional IRA in 2012, other than the 2012 QCD; or
- the 2012 QCD was from a Roth IRA.

If a 2012 *Form 8606* must be filed, the instructions to the form will describe how to report any 2012 QCD made in January 2013.

### Additional Resources:

- [Charitable Donations from IRAs for 2010 and 2011](#)
- [Individual Retirement Arrangements \(IRAs\)](#)
- [Donations From Your IRA or of Your IRA Distribution to a Qualified Charity in 2012](#)

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