December 20, 2010 2:47 p.m. EST

PRACTICE MANAGEMENT

Confusion From Charitable IRAs Could Be Ahead

By VERONICA DAGHER
A DOW JONES NEWSWIRES COLUMN

NEW YORK -- The new U.S. tax deal signed into law last week includes an extension of a provision allowing older people to continue to make charitable donations directly from their individual retirement accounts this year and next. Now all their advisers have to do is make sure the right things get done at the right time, with a pretty small window for 2010.

"It will require more follow-up to ensure custodians code the charitable IRA rollover to the correct tax year," says Scott Barbee, a Cincinnati certified financial planner.

Scott Barbee

The provision, which was originally enacted in 2006 as part of the Pension Protection Act, allows those with IRAs who are 70 1/2 years and older to directly transfer up to $100,000 tax-free each year to charity as part or all--in some cases--of their required minimum distribution, RMD. It's now set to run through 2011.

It also allows individuals to make the charitable transfers through January 2011 and treat them for tax-filing purposes as if they were made during 2010. That gives clients a little extra time to make this year's donations, Barbee says, but it also may cause confusion for custodians and financial services firms whose distribution forms may not reflect the extension. Those firms are already busy with other year-end issues.

The extended deadline may also confuse some clients. Some could decide to put off donations until late January, and create another year-end type scramble on Jan. 31.

Regardless of the extension, Troy Sapp, a Tacoma, Wash., certified financial planner, is urging his clients to act soon to make sure their requests don't get lost in the shuffle and they don't risk any penalties for not taking their proper RMD amount.

(TALK BACK: We invite readers to send us comments on this or other financial news topics. Please email us at TalkbackAmericas@dowjones.com. Readers should include their full names, work or home addresses and telephone numbers for verification purposes. We reserve the right to edit and publish your comments along with your name; we reserve the right not to publish reader comments.)

--Veronica Dagher is a reporter for Dow Jones Newswires who focuses on wealth management. She can be reached at 212-416-2261 or veronica.dagher@dowjones.com.

URL for this article: