



## INFORMATION SHEET: GIVING IN THE US: QUALIFIED CHARITABLE DISTRIBUTIONS

Under recent legislation, in 2006 and 2007, individuals who are 70 1/2 or older may make "qualified charitable distributions" of up to \$100,000 from their traditional or Roth individual retirement accounts to Cambridge in America without including the distribution in their gross income for tax purposes. Because Roth IRA distributions generally are not taxed, it is preferable for donors to make these distributions from their traditional IRA. The distribution must be made directly from the IRA trustee to Cambridge in America to qualify for this treatment. The distribution is taken into account for purposes of the IRA minimum distribution rules.

If the donor has any IRA that includes non-deductible contributions, a special rule applies. Non-deductible contributions are after-tax contributions that the donor made to the IRA which would not be subject to income tax when they are subsequently distributed from the IRA to the donor. The distribution to Cambridge in America is treated as having been made first from any IRA amounts that otherwise would have been included in the donor's income upon distribution.

### Examples:

- (1) Individual A who is 71, has a traditional IRA with a balance of \$100,000, consisting solely of deductible contributions and earnings. Individual A has no other IRA. The entire IRA balance is distributed to Cambridge in America. Under the new provision, the entire distribution of \$100,000 is not included in Individual A's income.
- (2) Individual B who is also 71, has a traditional IRA with a balance of \$100,000, consisting of \$20,000 of non-deductible contributions and \$80,000 of deductible contributions and earnings. Individual B has no other IRA. \$80,000 is distributed to Cambridge in America. Under the new provision, the entire \$80,000 distributed to Cambridge in America is treated as a qualified charitable distribution, and no amount is included in Individual B's income as a result of the distribution. \$20,000 of the amount remaining is treated as Individual B's non - deductible contributions and is not subject to tax upon distribution.

Similar favorable treatment is also available for distributions from more than one IRA.



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IRA distributions that are excluded from the donor's gross income under this provision do not also qualify for a charitable income tax deduction; instead the donor's tax benefit is that the distribution is excluded from the donor's income. Cambridge in America will provide substantiation letters to donors as required under the new law.

In a very few states, such as Massachusetts, "qualified charitable distributions" may be included in the donor's income for state income tax purposes. Donors are advised to consult with their tax advisors.

Further advice can be sought via Cambridge in America. Please contact Ed Strauss at:

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