

Tax-Free Charitable Distributions From IRAs



TOTAL MERRILL®

WHAT IS THE STRATEGY?

The Pension Protection Act of 2006 allows eligible IRA owners to make qualified charitable distributions up to \$100,000 (\$200,000 for married couples who qualify) per year from traditional and rollover IRAs in 2006 and 2007 without having to pay taxes on the distribution. These distributions are not tax-deductible and must be made payable directly to a qualified charity.¹

Transferring your wealth tax-efficiently can make a huge difference in helping you pass on more of your assets to your heirs and favorite causes. A number of philanthropic strategies are available that allow you to direct your wealth in ways that reflect your values and beliefs, meet personal financial goals and objectives, and provide important tax benefits.

This process involves a significant amount of thinking and planning. As you prepare a plan, one strategy you should consider is to make a tax-free charitable distribution from your traditional or rollover IRAs (IRRA®).

WHO QUALIFIES FOR THIS STRATEGY?

- You must be age 70½ or older at the time of the distribution.
- You may distribute any amount up to \$100,000 per year in tax years 2006 and 2007.
- You and your spouse may take combined distributions up to \$200,000, provided each of you owns at least one IRA, is at least 70½ years old at the time of the distribution and can make a qualified charitable distribution up to \$100,000 from your respective accounts.
- You may distribute from your traditional IRA and IRRA. Distributions may not be made from SEP and SIMPLE IRAs.

WHERE CAN YOU DIRECT CONTRIBUTIONS?

- The distribution proceeds must be paid by check directly to the charity.
- Charities must receive the distribution by Dec. 31, 2006, for it to qualify for tax-free status in tax year 2006. The deadline is Dec. 31, 2007, for tax year 2007.

- Donor advised funds and certain private foundations are not eligible charities. You must check with your tax advisors to determine whether a charity qualifies under IRS guidelines.

HOW DO YOU APPLY THIS STRATEGY?

Your Financial Advisor can help you evaluate this strategy to determine whether it makes sense in your overall estate plan. If you decide to implement this strategy and initiate a distribution from your IRA, you or your Financial Advisor must:

- Complete the *IRA/IRRA One-Time Distribution Form*. Be sure to complete section “g” (“Make check payable to alternate payee”), including the charity’s complete name and mailing address.
- Complete the Merrill Lynch direct charitable distribution form letter. Merrill Lynch will send this letter to the charity with the check on your behalf. The letter tells the charity who is making the donation and asks the charity to send a receipt to you at the address provided.

CAN YOU USE THE QUALIFIED CHARITABLE DISTRIBUTION TO MEET REQUIRED MINIMUM DISTRIBUTIONS FOR THE YEAR?

Yes, up to the entire \$100,000 per person.

CAN YOU CONSIDER DISTRIBUTIONS THAT YOU TOOK PREVIOUSLY IN 2006 TO BE QUALIFIED CHARITABLE DISTRIBUTIONS?

For the special tax treatment, you may consider only distributions taken after Dec. 31, 2005, that are made payable from your IRA directly to a charity.

TO WHOM SHOULD YOUR DISTRIBUTION CHECKS BE PAYABLE?

Merrill Lynch will make the check payable to the charity. You cannot receive a distribution payable to you and then issue a second check to the charity.

HOW ARE TAX TREATMENTS AND RECOVERY OF BASIS HANDLED?

You must take qualified charitable distributions from taxable amounts in an IRA first, even if they also have an after-tax basis.

EXAMPLE:

Assume you own one IRA worth \$100,000 in which \$80,000 is pre-tax and \$20,000 is after-tax. If you make an \$80,000 qualified charitable distribution, the entire \$80,000 will be treated as distributed from pre-tax dollars. The remaining \$20,000 will be considered recovery of nondeductible contributions.

HOW IS THE QUALIFIED CHARITABLE DISTRIBUTION STATUS DETERMINED?

It is the sole responsibility of the IRA and IRRA account owners to determine whether a distribution qualifies as a qualified charitable distribution, including but not limited to determining whether the donee qualifies as an eligible charitable organization. You should consult a competent tax professional before considering any distributions from an IRA. Merrill Lynch does not provide tax or legal advice.

WHAT HAPPENS IF YOU HAVE PERIODIC DISTRIBUTIONS OF RMDS?

You should request an additional one-time distribution to take advantage of this provision.

HOW CAN YOU GET STARTED?

Call your Merrill Lynch Financial Advisor to discuss the requirements for taking a tax-free distribution from your traditional or Roth IRA in 2006 or 2007. Your Financial Advisor is your essential partner—someone who understands your situation, your needs and what you want to accomplish. To learn more about Total MerrillSM and other Merrill Lynch services, visit www.askmerrill.ml.com.

Any information presented about tax considerations affecting your financial transactions or arrangements is not intended as tax advice and cannot be relied on to avoid any tax penalties. Neither Merrill Lynch nor its Financial Advisors provide tax, accounting or legal advice. You should review any planned financial transactions or arrangements that may have tax, accounting or legal implications with your personal professional advisors.

¹ The IRS defines a qualified charity as an organization described in Internal Revenue Code Section 170(b)(1)(A), other than a Code Section 509(a)(3) private foundation or a Code Section 4966(d)(2) donor advised fund.



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