CORRECTION: Qualifying personal IRA distributions taken in the month of December 2012 can be counted as a "charitable rollover" if contributed to a charity as cash by January 31, 2013.

Short-Term Cliff Deal Reinstates IRA Rollover and "Pease" Provision

Dear [Member],

January 3, Washington, DC - The tax deal passed by Congress on Tuesday has encouraging but mixed results for charitable giving, and leaves much work to be done throughout the coming year. The "American Taxpayer Relief Act of 2012" protects communities from the most dramatic caps to charitable deductions that were under consideration, reinstates the IRA Charitable Rollover provision, but also includes reinstatement of a more modest limit to all deductions for higher-income earners. Because the deal is a short-term fix to the fiscal cliff, we can expect further advocacy needed in the months ahead as Congress deals with the unfinished business of mandatory spending cuts and tax reform.

Charitable Giving Incentives

The cliff package does not include a flat percentage cap or dollar cap on charitable giving incentives as had been hotly debated in the final weeks of 2012. It does, however, reinstate the so-called "Pease" limitation on all itemized deductions for families earning over $300,000 per year ($250,000 for individuals). The provision first took effect in 1991 as a federal revenue generator, but was gradually phased out in the 2006-10 tax years due to its complexity. The Performing Arts Alliance and the broader nonprofit community had called on Congress to exempt charitable donations from the Pease provision. However, beginning with the 2013 tax year, the provision will reduce all tax deductions by 3% of the amount that the adjusted gross income exceeds the $300,000/$250,000 thresholds - with the reduction capped at up to 80% of the total value of all deductions. The return of the Pease provision has been on the table as a revenue generator throughout the fiscal cliff negotiations as it was included in the President's FY13 budget request, in the "Buffet Rule" proposals that were in play in the House and Senate in 2012, and in a tax package passed by the Senate last summer. Implementation of the Pease provision is complicated, so please see the sample scenario in the sidebar for more details.

IRA Charitable Rollover Reinstated:

The IRA Charitable Rollover provision was also reinstated for 2012 and 2013 in the tax deal Congress passed on Tuesday. The IRA Rollover provision has proven to generate new and increased charitable donations. It permits donors age 70 1/2 and older to make tax-free gifts directly from their IRAs, up to an annual ceiling of $100,000, but had expired at the end of 2011. Under the bill passed on Tuesday:

- The IRA Charitable Rollover is reinstated retroactively for 2012, and is available through 2013;

Tell-A-Friend:
Visit the link below to tell others about this important information.

Sample Pease Deduction Limitation (Adapted from the Alliance for Charitable Reform):

Suppose for 2013 that you are filing a joint return and you and your spouse have combined income of $425,000. Also assume that you have itemized deductions (mortgage interest, state taxes, and charitable contributions) that total $100,000. The Pease limitation is computed by first figuring the excess of your income over a $300,000 threshold for joint returns (for single filers the threshold is $250,000). So the excess is $125,000 ($425,000 less $300,000). Three percent of $125,000 is $3,750, so this is the amount of the limitation, and this amount is subtracted from the otherwise allowable itemized deductions. So, instead of having deductions of $100,000, you can write off only $96,250. Assuming you are in the 33 percent tax bracket, this new limitation would cost you $1,237.50 in extra federal taxes.

Tell-A-Friend!
IRA Rollover gifts made through January 31, 2013 will count as 2012 contributions;
Qualifying personal IRA distributions taken in the month of December 2012 can be counted as a "charitable rollover" if contributed to a charity as cash by January 31, 2013.

Thank You - and Prepare for More in 2013!
Members of the Performing Arts Alliance sent nearly 2,000 communications to Congress urging protection against caps on charitable giving incentives and immediate reinstatement of the IRA Charitable Rollover provision. The Performing Arts Alliance will continue to amplify your voice in Washington as budget negotiations and tax reform debates continue. Visit the Performing Arts Alliance for more information about the threat to the charitable deduction and what you can do.

The Performing Arts Alliance is a national network of more than 27,000 organizational and individual members comprising the professional, nonprofit performing arts and presenting fields. Membership in the Performing Arts Alliance is a member service of American Composers Forum, Association of Performing Arts Presenters, Chorus America, Dance/USA, Fractured Atlas, League of American Orchestras, National Alliance for Musical Theatre, National Association of Latino Arts and Culture, National Performance Network, New Music USA, OPERA America, and Theatre Communications Group.

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