

Pension Protection Act means opportunities, challenges

Though it's called the Pension Protection Act of 2006 (PPA), the bill signed into law by President Bush in August 2006 has plenty of provisions of interest to nonprofit organizations. Some PPA elements, such as the IRA charitable rollover, are proving to be a boon to public charities. Others, like the requirement that donated used clothing and household items be in "good" condition to qualify as a tax deduction, are changing the way some nonprofits operate. In addition, there are new filing and public disclosure requirements for certain organizations.

IRA charitable rollover

PPA's IRA charitable rollover provision is designed to give taxpayers incentives to make charitable donations. Those age 70½ and older can make direct distributions of up to \$100,000 from a traditional or Roth IRA to public charitable organizations. The provision remains in place now through Dec. 31, 2007.

PPA doesn't spell out every detail, so eligible charities have had to try to interpret its implications for soliciting and accepting IRA donations. Organizations need, for example, to figure out how banks and other institutions that administer IRAs will process transfers.

PPA also doesn't clarify how charities should acknowledge IRA rollover donations. Will a standard receipt or acknowledgment letter be sufficient, or must the donor require a more detailed substantiation to be able to take the tax deduction?

If you choose to promote this new provision among your donors, you should urge them to discuss IRA rollovers with their legal and tax advisors to ensure they get the full benefit of the deduction.

Contributions of goods

The law specifies that taxpayers who itemize may take a deduction for donations of clothes and household goods that are in good used condition only. If the total deduction is more than \$500, Form 8283 must be attached to the filed tax return. If someone donates a single item valued at \$5,000 or more, the donor may need to include a qualified appraisal with his or her tax return. These provisions were effective beginning Aug. 17, 2006.

These higher-value donations also put new demands on charities. If you sell or dispose of a donated item that is valued at more than \$500 within three years, you must file a Donee Information Return. The only exception to this rule is if the item was used for charitable purposes before it was sold or disposed of. Be aware, though, that you'll be subject to substantial penalties if you falsely claim charitable purposes to assure someone's tax deduction.

If you accept donations of clothes or household items, help donors understand the new rules. You might, for example, post signs at donation facilities, include the information on your Web site or in your newsletter, or add PPA-specific language on preprinted donation receipts. You also may wish to revise and publicize your donation guidelines. For example, you may decide to discontinue accepting clothing that has obvious signs of wear or household items that are broken or have parts missing.

New requirements

New reporting requirements also go into effect for periods beginning Jan. 1, 2007 for small nonprofits (those with annual revenues of less than \$25,000). At press time, the IRS was creating an electronic Form 990 that would capture basic information about the charity's name, mailing address, name and address of the principal officer, substantiation of the group's exemption from filing a 990, and other details.

The IRS will be contacting organizations to supply this information. PPA includes a provision that the IRS must revoke the nonprofit status of any group that fails to submit this information for three consecutive years. So if you receive a notification that the IRS needs information from you, don't ignore it.

Nonprofit impact

To ensure you understand the full impact of PPA, discuss it with your tax advisor. After all, you want to ensure you and your donors are in full compliance with the law and able to reap the greatest benefits for your charity.