



**"WORKING TO
GROW YOUR WEALTH"**

Investor Bulletin

Special Edition

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The Pension Protection Act of 2006

And Charitable Donations

There is big news in the Pension Protection Act which President Bush signed on August 17, 2006, for IRA holders aged 70 1/2 and older. For 2006 and 2007 only, the new law allows tax-free withdrawals from IRAs as long as the money goes directly to a charitable organization.

The main benefit for taxpayers is that the money, donated to a charity directly from the IRA, keeps the donated amount out of the giver's taxable income. In other words, the act provides an exclusion from gross income for the charitable gifts if the money is given directly to a qualified charity. This option is most attractive to traditional IRA holders, since the money in these accounts is taxable upon withdrawal. However, the option is also available to Roth IRA account holders.

Individuals may donate up to \$100,000 in 2006, and another \$100,000 in 2007. The amount donated is not reported as a gift for federal tax purposes, and qualifies for an individual's RMD (required minimum distribution). By donating the money to charity, an individual can meet their RMD without incurring a tax bill.

This process may help older individuals who claim the standard amount on their income tax and do not itemize. Usually when money is withdrawn from an IRA, the amount becomes part of the taxpayer's taxable income for the year. Now an individual can avoid paying tax on the IRA distribution.

Normally if money is donated to charity the funds can be deducted as a charitable contribution—but only if the taxpayer itemizes on their tax return. Many retirees who no longer pay a lot of mortgage interest do not have large enough deductions to itemize. However, no double dipping is allowed. Since the distribution is tax-free, it cannot be deducted as a charitable contribution. On the other hand, the ability to keep the money out of taxable income should offset the deduction loss.

This new way of giving may help individuals who face donation limits based on their income. Generally, you cannot donate an amount that exceeds 50% of your AGI (adjusted gross income). But when the money goes directly to the charity from the IRA, the funds do not count against that limit because the money is not included in gross income.

There are some additional rules about the charitable donations which may or may not affect an individual or couple's tax situation. We are not accountants or attorneys and do not offer specific legal or tax advice. Before making any contributions, it is advisable to consult with your legal or tax advisor concerning your particular circumstances.

Market Updates...

- **Armstrong Holdings, Inc. (ACKHQ)** - Armstrong, which has been operating under Chapter 11 bankruptcy since December 2000, announced that the company's reorganization plan has been approved by the U.S. District Court. The company anticipates that it will emerge from bankruptcy during the fourth quarter of 2006. At that time, new stock will be issued. Current Armstrong common stock will be worthless. We recommend, if you own Armstrong stock, sell the stock immediately.
- **Inco (N)** - This Canadian nickel mining company has been involved in merger/acquisition proposals for the past few months. The outcome is still uncertain. We sold the stock out of our managed accounts and captured substantial gains. For anyone still holding the stock in their accounts, we suggest selling the stock and locking in gains.

Additional Reminders...

IRA account holders 70½ and older

As we enter the fourth quarter of 2006, do not forget to take your RMD (required minimum distribution) from your retirement account(s) before December 31, 2006. If you need information on exactly what the RMD is for your account(s) for the year, or to complete an IRA Distribution form, give our office a call (717-392-0002).

Small business owners

The deadline for establishing a SIMPLE IRA retirement plan for your employees for 2006 is September 30th. If you do not currently have a retirement plan in place, give us a call about establishing one NOW for your company.

529 College Savings Plans

Updates on recent laws affecting 529 plans:

- Pennsylvania Governor Edward Rendell signed a budget bill on July 2, 2006, that provides PA taxpayers with a state income tax deduction for contributions of up to \$12,000 a year to any state's 529 plan. The deduction is not limited to 529 plans offered by the state of PA. The \$12,000 annual contribution limit is tied to the federal gift tax annual exclusion amount.
- The state income tax Pennsylvanians previously paid on investment gains when funds were withdrawn from 529 plans sponsored by other states, has been eliminated.
- The recent enactment of the federal Pension Protection Act permanently extends the federal tax benefits for 529 plans. The benefits were set to expire in 2010.

We remember...

September 11, 2001— Terrorist attack on the U.S. The attack destroyed the World Trade Center in NYC, part of the Pentagon, and crashed a passenger airliner in PA. In total almost 3,000 people were killed.

"I'm living so far beyond my income that we may almost be said to be living apart."
- ee cummings

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