

Charity as Beneficiary of Retirement Plans:

A gift of an IRA, 401(k) or other retirement plan to CFPA can result in substantial tax savings. If the donor names his or her spouse as the beneficiary of these plans after death, she or he will pay income taxes on the required distributions. If the donor names someone other than his or her spouse as the beneficiary, such as the children, the distributions are subject to both estate and income taxes. In fact, the combination of estate and income taxes can claim up to 70% or more of the original value of the assets when given to heirs. A gift of a retirement plan to charity, on the other hand, is not subject to either estate or income tax taxes and the charity can, therefore, enjoy the full value of the gift.

Example:

Dave, a widower, would like to leave CFPA approximately \$400,000, with the balance of his estate going to his children. His total estate is approximately \$4,400,000 made up of \$400,000 in his IRA and \$4,000,000 in cash (general estate asset.) What asset should he use for his charitable gift?

Option 1: Give \$400,000 from his general estate assets to charity and the IRA to the children. After an estimated estate tax of 45% on the \$4,400,000 and personal income tax of 35% on the remaining IRA, the children will receive approximately \$1,943,000.

Option 2: Give the IRA assets to charity and the other assets to the children. After an estimated estate tax of 45% on \$4,000,000 and zero income tax on the IRA because it did not go to the kids, the children will receive approximately \$2,200,000.

Conclusion: There is a total tax savings of \$257,000 by gifting the IRA directly to charity.