# Your IRA: Taxes or Charity?

## Transfer IRA assets to charity tax-free.

*Now in their 80s, Ken and Julia Ball have accumulated more than $1 million in their IRA's. At this age, they must receive distributions, and because they don't need the money, the Ball's opt to receive the minimum payout, which is heavily taxed. "We were going to keep doing things this way, and use whatever was left over in our IRAs to make a gift to the art museum," said Ken. "But we realized we would be missing the joy of giving back during our lifetimes."*

Their estate planning attorney recognized an opportunity. By transferring $100,000 from each of their IRAs to the local community foundation in 2015, the Balls could establish a Designated Fund to support the museum without paying taxes and were able to do so during their lifetimes.

"We were so happy to find out that we could give a portion of our IRA's to charity without losing anything to taxes," says Julia. "Plus, because we can do so right now, the art museum doesn't have to wait until we're gone to get a steady stream of income from our fund."

The art museum's director was elated. She let the Ball's know their fund will help the museum bring art into the lives of local people today and for generations to come.

**Lasting gift.** Through a designated fund, the Ball's have helped their local museum sustain and grow. In addition to establishing an endowment, the museum now has access to the community foundation's planned giving and investment management services, which may encourage more donors to establish endowed funds for other community projects..

**Tax advantage.** The Ball's learned that, due to potentially heavy taxes on their estate and income taxes paid by their beneficiaries, IRAs may not be the best assets to leave to their heirs. They also learned that their retirement funds can be directed to a designated fund with the community foundation as the beneficiary. Renewed legislation allows the Ball's to transfer up to $100,000 to charity from each of their IRAs tax-free.

*There's so much more we'd like you to know. Your community foundation provides personalized service and a variety of giving vehicles. We welcome the opportunity to work with you and your advisor to fulfill your unique charitable objectives. This story represents a composite illustration drawn from the actual stories of many of the thousands of people who give through their community foundations.*

# Charitable IRA:
# A Permanent Giving and Tax Savings Opportunity

There are numerous tax advantages of giving qualified retirement plan account and individual retirement account ("IRA") benefits to charity. With the exception of Roth retirement accounts, when funds are withdrawn from retirement accounts by non-charitable beneficiaries, both federal and state income tax will have to be paid. Retirement accounts possessed at death may also be subject to federal estate tax. Because of this double tax bite, someone who plans to make charitable gifts should consider naming a charity as a beneficiary of his or her retirement accounts. Doing so will provide the following advantages:

(1) the distribution to the charity is deductible for federal estate tax purposes;

(2) the decedent's estate and non-charitable beneficiaries will avoid taxable income;

(3) the charity will generally avoid income tax on the distribution.

IRA owners who are 70½ and older must take a required minimum distribution ("RMD") from their IRA accounts. Such IRA owners also have the ability to annually direct up to $100,000 of their IRA distributions to charity. IRA distributions given to a charity count toward the donor's RMD, but do not increase the donor's adjusted gross income ("AGI") or generate taxable income. Removing the IRA distributions from the owner's AGI may:

(1) help the donor qualify for other tax deductions;

(2) reduce taxes on the donor's Social Security benefits; and

(3) avoid the high-income surcharge for Medicare Part B and Part D premiums.

Please note that while beneficial, these strategies have specific legal and tax requirements and should only be undertaken with the advice of your investment advisor, attorney and/or accountant. This article does not contain legal advice.

*Information provided by Andrew Ellis, Arthur-Green, LLP and GMCF Young Trustee*

## The Details

- You must be 70 1/2 or older when you make your gift, and the gift must be made from an IRA -- no other retirement plans (such as 401k, 403b or SEP accounts) qualify.
- Your gift must come to the community foundation outright. Distributions to almost all types of funds typically held by a community foundation -- such as scholarship, field-of-interest, & designated funds -- qualify. It cannot be used to establish a charitable gift annuity or support a donor-advised fund.
- The gift counts towards your minimum required distribution from your IRA for the year.
- The charitable portion of your distribution, up to $100,000, will be free from income tax.
- Remember -- when tax season arrives you cannot count that gift as an income tax charitable deduction since it was a pre-tax gift.

## *Example:*

*Mr. Smith, age 75, has accumulated approximately $2,000,000 in his IRA accounts. He has other sources of wealth and has plans to leave a sizable estate to his heirs and charity.*

*Under this law, Mr. Smith can create a fund at the community foundation to address the causes he cares about most by transferring IRA funds tax free. Mr. Smith can transfer up to $100,000. In addition, if Mr. Smith is married, his wife can also make similar gifts from her IRA accounts, impacting the community in ways personal, unique and enduring.*