

LEAVING A CHARITABLE LEGACY WITH AN IRA

BY RONALD F. WAYNE, ESQ.

For many people, retirement assets represent a major portion of their accumulated wealth. In a previous issue of *Gratias Agere*, we discussed how Qualified Charitable Distributions (QCDs) provide a very tax-efficient method for persons over 70-1/2 to benefit a charity of their choice *during life*. Here, I will explain how simple it is to use IRAs (or 401ks) as a tax-efficient source of funding charitable bequests *at death*.

There are many creative ways to make charitable gifts upon death that may generate a substantial income tax benefit. Some of these methods require sophisticated trusts prepared by your estate planning attorney. Such trusts may incur annual administrative costs and require annual tax returns in order to reap the benefits. Sometimes there is a simpler, cost-free way to accomplish a substantially similar result.

If you want to leave your assets to both family members and charity, it makes good sense to leave your *non-retirement* assets to your family and your *retirement* assets to charity. This is true because your family will pay income taxes on distributions received from your retirement assets while a charity will not. As a result, 100% of retirement assets that are designated for a charity will further its mission without being reduced by income taxes.

Here's an example. Let's say you have a \$1,000,000 IRA (or 401k) and would like to leave approximately \$100,000 to Catholic Charities. You can change your beneficiary designation form to leave 10% to Catholic Charities and 90% to family members. Preferably, however, you would rollover \$100,000 into a new IRA (without tax consequence), name Catholic Charities as the beneficiary of the new IRA, and leave 90% in the old IRA for your family members. Catholic Charities will not pay income tax on the IRA distribution it receives.

As another example, you can designate your Donor Advised Fund (DAF) or Permanent Named Fund (PNF) at the Catholic Community Foundation as your IRA beneficiary. If you name your DAF as a beneficiary, your children can act as advisors upon your death to make grants from the DAF to various charities they wish to support. Designating your PNF as beneficiary of your IRA ensures that distributions will be made over time to charities you have designated, while creating a legacy in your name or in honor of a loved one.

During your lifetime, you can continue to use your IRA distributions to support yourself or make Qualified Charitable Distributions. Only the amount left in the account at your death goes to the charity. You can change the designated beneficiary of your IRA at any time prior to your death.

In summary, a charitable beneficiary designation avoids both income tax and probate at your death. If your estate is very large you may also avoid estate tax on the value of the IRA. *If your IRA would otherwise be subject to both income and estate taxes, 60% or more of the value of the IRA could be lost to those taxes if you do not leave it to a charity.* Before implementing any of the techniques described above, always consult your estate planning attorney, accountant and/or financial planner.

I like simple things. That's why I designated my parish as a partial beneficiary of my IRA!



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