A Charitable Opportunity Using Your IRA

Many people have a large percentage of their wealth in the form of traditional IRA accounts. In most cases, this is because significant distributions have been rolled over tax-free from qualified retirement plans. A lot of people also have charitable intentions. If this sounds familiar, there's a tax-saving strategy you should know about.

Consider designating The Lighthouse Presbyterian Church as beneficiary of all or a portion of your IRAs.

Avoid Double or Even Triple Taxation

- Your traditional IRA account is included in your estate for *federal estate tax* purposes when you die. That's tax number one.
- Next, the taxable portion of the IRA balance (which is often the entire amount) is counted again as "income in respect of a decedent" (IRD) for *federal income tax* purposes. That means federal income tax will be owed when IRA withdrawals are taken by your estate or your heirs. That's tax number two.
- To make matters even worse, *state income tax* may be due as well. If so, that's tax number three.

After all these taxes have been paid, your heirs may receive only a very small fraction of your IRA money while tax collectors get the lion's share.

Lighthouse Presbyterian Church as Your IRA Beneficiary is the Solution

A tax-smart solution is to leave some or all of your IRA money to your church while leaving everything else to the heirs you choose. The net result will be more after-tax cash for them. At the same time, you can satisfy charitable inclinations after you die. Sound good? Here are the details.

By designating Lighthouse Presbyterian Church as beneficiary of your IRA, you leave that money to the church after your death. Under our current federal tax system, that is the only way to leave IRA balances directly to charity.

Leaving IRA money directly to the church, upon your death, by designating it as account beneficiary is very tax-efficient. First, an IRA balance left to charity avoids the federal estate tax. Second, there's no federal income tax due on the IRA money (the IRD rules don't apply). There's no state income tax either. Finally, no income taxes are due when your favorite tax-exempt charities take their withdrawals from the IRAs. So you avoid double or triple taxation in a simple way.

Strategies for Your Loved Ones

If you are planning to make bequests to your loved ones, you can leave gifts of assets that are eligible for the federal income tax basis "step-up" to fair market value, as of the date of your death. Thanks to the basis step-up break, these assets can be sold by your heirs with little or no income tax (only post-death appreciation would be taxed). So there are no double taxation worries. However, they will be included in your estate for federal estate tax purposes, assuming your estate is taxable.

When all is said and done, this IRA donation strategy allows you to leave more to your church, more to your loved ones, and less to the tax collector.

You can generally take the same steps with other types of tax-deferred retirement plan accounts as long as the accounts have specific balances. These include 401(k), corporate profit-sharing, SEP, and Keogh retirement accounts. If you're married, however, state law may require you to obtain your spouse's permission to name charities as beneficiaries of these accounts.

Conclusion: Designating Lighthouse Church as a beneficiary of your traditional IRA (and other tax-deferred retirement accounts, if your spouse approves) can be a tax-smart maneuver. With advance planning and the federal estate tax exemption, you have much more opportunity to minimize both federal and applicable state income and estate taxes. Contact your tax adviser if you have questions or want additional information.

NOTICE: Naming a charity as the beneficiary of your ROTH IRA is generally not advisable. Please check with your tax advisor.