An example

David planned to make a gift through his will to one of his charitable interests, and he named his nieces and nephews as beneficiaries of his retirement account.

He was surprised to learn that the retirement funds will be subject to state and federal income tax when received by his heirs, substantially reducing the amount he intended to give them.

After consulting with his advisors, David decided his charitable gift would be made from his retirement plan, and his nieces and nephews would receive other assets not subject to income tax.

The amount David leaves to charity will be tax-deductible for estate tax purposes, where applicable, whether left by will or through his retirement plan. His nieces and nephews will not owe income tax on the amount they receive through his will.

Through this simple change, David was able to leave a larger inheritance for his loved ones while at the same time fulfilling his desire to make a meaningful charitable gift.

This code provides additional information to assist you in your planning or to share with your advisors.

SCAN HERE

It is possible to change the beneficiaries of your retirement plan remainder in the future should your needs or wishes change. However, the consent of a spouse may be necessary.

Other ways to give

If you have reached the limit on the amount you can contribute to tax-favored retirement plans, there are numerous charitable gift planning options you can use to help supplement those accounts.

The available possibilities feature a number of benefits, including federal income, capital gains, estate and gift tax savings.

Some options allow you to set aside additional funds that can grow tax-free and provide increased income during retirement years. Or you may arrange for a fixed or variable income for a surviving spouse or other heirs for life or other period of time.

In some cases, it may make sense to leave retirement fund assets to a charitable trust or other arrangement to provide for loved ones first and then make a gift to charity.

These options allow you to enjoy immediate tax benefits because amounts contributed in these ways will ultimately be devoted to charitable purposes.

The next step

After you have discussed the charitable aspects of your estate and financial plans with advisors and decided you would like to make an immediate or future gift from your retirement assets, ask the administrator of your plan for the forms necessary to carry out your wishes.

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 GTRP-24

GIVING THROUGH RETIREMENT PLANS

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As millions of people are enjoying or approaching retirement age, it is more important than ever to plan carefully for financial well-being during retirement years.

Considering longer life expectancies, making plans today to meet long-term financial needs can be challenging. And, if charitable gifts are a priority, you may wonder how you can continue to give now and in the future.

Continue reading to learn how you can incorporate your charitable giving into your overall retirement planning.

Tax-favored retirement plans

Many people have taken advantage of generous tax incentives provided by Congress to encourage saving for retirement through contributions to IRAs, 401(k)s and similar plans.

These options usually feature income tax savings when contributions are made. Amounts in the plans then build tax-free and are not generally subject to income tax until they are withdrawn.

Any funds remaining are included as part of the owner's estate for state and/or federal estate tax purposes, where applicable.

Making charitable gifts today

If you have a traditional IRA and are 70½ or older, you may consider making a qualified charitable distribution (QCD) to eligible charities. You can generally make gifts in this way up to $105,000 this year. In future years, this amount will be indexed for inflation.

QCDs are not considered part of your taxable income and can count toward any required minimum distribution for the year. This can be an excellent way to make tax-free gifts whether or not you itemize your deductions. Other tax savings may also result from giving in this way.

On your tax return

If you have made QCDs this year, there are steps to follow when filing your tax return next April:

1. You will receive a 1099-R that shows your distribution. This is the amount you will enter on line 4a of your 1040 or 1040SR.

2. On line 4b, subtract the total amount of your QCDs and fill in the remainder (even if $0) and write "QCD" next to that amount. (For those who file electronically, there will be an option to select "QCD.")

For specific questions, check with your advisor.

If you have a Roth IRA, it may be preferable to take a tax-free withdrawal and use the funds to make tax-deductible gifts.

Other possibilities

If you are 59½ or older, you may make withdrawals from retirement plans to fund your charitable gifts. You would be required to report the withdrawn funds as income on your tax return; if you itemize your deductions, you are then allowed an offsetting charitable deduction for your gift.

For those who can deduct the full amount of the withdrawal/gift, this can result in being able to use these funds without incurring unnecessary income, gift or estate taxes.

An example

John and Carol have committed to making a charitable gift over a five-year period. After consulting with their tax advisors, they decide to make gifts each year with appreciated stock. They benefit from an income tax deduction for the full value of the securities while also bypassing capital gains tax.

The couple also plans to make withdrawals from their retirement accounts equal to the value of the securities they donate each year. While they will report the withdrawal amount as income each year, it will be offset by their charitable deduction for the full value of the donated securities.

They then use the cash to purchase new securities with a more favorable cost basis for tax purposes, restructuring and diversifying their portfolio in a tax-efficient manner.

Making future gifts

You may want to make charitable gifts using assets remaining in retirement accounts after you have provided for yourself and your loved ones. These funds are subject to federal and state income tax, where applicable, and remaining funds will be included in your estate should state and/or federal estate taxes be due.

In some cases, combined taxes could amount to 50% or more of the retirement account left to your heirs. Careful planning, however, can help minimize the taxes that could be due on retirement plan assets during and after one's lifetime.