Donating Retirement Assets

Donating an IRA or other retirement assets to charity can be a tax-smart estate planning strategy.

It is always possible to donate retirement assets, including IRAs, 401(k)s and 403(b)s, by cashing them out, paying the income tax attributable to the distribution and then contributing the proceeds to your charity. **In many cases, though,** there is little to no tax benefit associated with this type of donation. **However,** a direct contribution of retirement assets to a charity as part of an estate planning strategy can be very tax efficient. In some situations, it can mean more funds for your charity and heirs alike.

For many people, a retirement account like an IRA or 401(k) may be the most significant source of assets accumulated in their lifetime. Others may find that, due to their other resources and investments, they are not in need of all the funds accumulated in their retirement accounts. For those who wish to give to a charity, a natural question is whether they can donate retirement assets—and if there are any tax advantages for doing so.

Options for Donating Your Retirement Assets

Donating during your lifetime: In order to donate retirement plan assets during your lifetime you would need to take a distribution from the retirement account, include the distribution in your income for that year, account for any taxes associated with the distribution, and then contribute cash to your charity—**with one exception.** People who are age 70 ½ or older can contribute up to $100,000 from their IRA directly to a charity and avoid paying income taxes on the distribution. This is known as a qualified charitable distribution. It is limited to IRAs, and there are other exclusions and considerations as well.

As part of an estate plan: By contrast, there can be significant tax advantages to donating retirement assets to charity as part of an estate plan. When done properly, charitable donations of retirement assets can minimize the amount of income taxes imposed on both your individual heirs and your estate.

For questions on gifting from your retirement assets, please contact

Scott J. Gronholz, Director of Development and Planned Giving
Email: sgronhol@llhs.org

Phone: (920) 648-2321 x2217

Charitable Uses for Life Insurance

There are a number of methods for including life insurance in a charitable gift plan.

1. Make an absolute assignment (gift) of a life insurance policy currently owned or donate a new life insurance policy.
2. Use of dividends from existing policy. Assign all annual dividends to charity. This eliminates out-of-pocket contributions, yet still creates a deduction as dividends are paid.
3. Name a charity as the primary or contingent beneficiary of an existing or new life insurance policy. Although this will not yield a current income tax deduction, it will result in a federal estate tax deduction for the full amount of the proceeds payable to the charity, regardless of policy size.
4. Perhaps one of the most popular ways to utilize life insurance in charitable planning more indirectly is through "wealth replacement." In this situation, life insurance makes it possible for a donor to make an immediate or deferred gift of land, stock, or other property while still providing an acceptable family inheritance.

Please consult with your tax or financial advisors to determine the best charitable giving strategies before making any changes to your existing plan.

Giving Stock to Charity

Giving appreciated stock you've held for more than a year is better than giving cash. If you donate stock that has increased in value since you bought it more than a year ago – and if you itemize deductions -- you can take a charitable deduction for the stock's fair market value on the day you give it away. You'll also avoid capital-gains taxes on the increase in value over time, which you would have had to pay if you sold the stock then gave the charity the cash proceeds. You can deduct the fair market value only if you hold the stock for more than a year before giving it away. If you've held it for less than a year, your deduction is limited to your cost basis -- what you paid for the stock -- not the current value.

If it's a losing stock, it's better to sell it and give the cash. If the stock has lost value, it's better to sell the stock first and give the cash to the charity. You'll still be able to deduct your charitable donation if you itemize, but you'll also be able to take a capital loss when you sell the investment.

Please consult with your tax or financial advisors to determine the best charitable giving strategies before making any changes to your existing plan.

For additional information—Please contact:

Scott J. Gronholz

Lakeside Development Director

920-648-2321 X2217

sgronhol@llhs.org

Donating Real Estate

If you are charitably inclined, donating appreciated real estate offers many advantages. An outright gift to a charity allows you to deduct the property's fair market value (FMV) while avoiding capital gains taxes. Bear in mind that, if you donate real estate to a private foundation, your deduction is limited to your cost basis.
In many cases, if one takes into consideration ongoing property taxes, maintenance costs, income taxes--or if the property is sold, the cost of legal fees, brokerage fees, estate taxes, inheritance taxes and capital gains taxes--it is often financially preferable to donate properties to charities. It also saves heirs the trouble of trying to divvy up the gains if the will is potentially contentious or inequitable. Sometimes there are intangible benefits as well.

Please consult with your tax or financial advisors to determine the best charitable giving strategies before making any changes to your existing plan.

For additional information—please contact:

Scott J. Gronholz
Lakeside Development Director
920-648-2321 X2217
sgronhol@llhs.org