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ACS Scholar Adunoluwa Obisesan
BS, Massachusetts Institute of Technology, June 2021
(Chemical-biological Engineering, Computer Science & Molecular Biology)

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*Modified from definition from the national Foundation Center for Work Culture.

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Executive Vice President,
Thompson & Associates

MARY BET DOBSON, CAPR
Senior Director of Individual Giving and Gift Planning,
American Chemical Society

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Johni Hays, JD, FCEP
Executive Vice President // johni@ceplan.com

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“We make a living by what we get, but we make a life by what we give.”
—Winston Churchill

“It is the responsibility of every human being to aspire to do something worthwhile, to make this world a better place than the one they found.”
—Albert Einstein
Charitable Planning with IRAs

Types of IRAs & Qualified Retirement Plans

- **Qualified Retirement Plans:**
  - Keoghs
  - 401(k)s
  - 403(b)s
  - Pension plans
  - Profit sharing plans

- **IRAs:**
  - Traditional IRAs
  - Rollover IRA
  - Inherited IRA
  - SEP IRA
  - Roth IRA (*typically income tax–free when set up correctly*)
Charitable Options

- IRAs and qualified retirement plan assets make lousy lifetime charitable gifts because the retirement account owner/donor must pay taxable income on them when donating them to charity.

- It’s technically a withdrawal from the plan, followed by a charitable gift of cash/charitable deduction.

Lifetime Gifts
Laura has $300,000 in her IRA.
She wants to give $50,000 toward a capital campaign.
She would have to withdraw $50,000 from the IRA.
She would have to pay income tax on the $50,000.

Laura can make a gift of $50,000 (or a smaller gift since she'll have to pay income tax).
She can deduct her gift up to 60% of her AGI.
- The best-case scenario is a tax wash.
- This is not a good result for her since she’s expecting to come out ahead tax wise.
- Laura’s better off giving stock or cash from a tax standpoint.
Charitable IRA Rollover

• “Qualified Charitable Distribution” – technical name

• Age 70½ or older at date of gift

• From an IRA or Roth IRA (not from other types of retirement accounts)

• Up to $100,000 per year per taxpayer – now indexed in future years

• Qualified charities only

Charitable IRA Rollover

• Can fulfill Required Minimum Distributions (RMD) - RMDs are not required until age 73 (2022 was age 72)

• Amount is not included in taxable income – so no income tax deduction

• Noted on IRS tax return, but not taxable
Charitable IRA Rollover

• No personal benefit to donor (not tickets, etc.)

• Takes time; don’t wait until December to begin the process

• Okay to pay a pledge

• If an Inherited IRA – beneficiary must be age 70½ or older
If you are age 70 ½ or older, have you ever made a charitable gift under this legislation – called a Charitable IRA Rollover? (or a Qualified Charitable Distribution?)

- Yes
- No
- No, but I would like to in the future

* If your answer differs greatly from the choices above tell us in the chat!

Key Changes

- Raised RMD age from 72 to 73
- Allows for a one-time ability for life income
NEW: QCD for Lifetime Income

- Effective 1/1/2023

- Can now fund life income gift (i.e., a Charitable Gift Annuity or Charitable Remainder Trust):
  - Age 70½ or older
  - For a new charitable gift annuity only
  - Up to $50,000 one time only (lifetime max)
  - Charitable remainder trusts are not generally a feasible choice

---

**Charitable Gift Annuity**

1. Create a gift annuity with a charity of the donor's choice
2. Donor
   - Receives fixed payments for life
3. Remainder to the charity after donor's lifetime
4. Charitable Organization
ACGA Maximum Suggested Charitable Gift Annuity Rates
Effective January 1, 2023

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<th>AGE*</th>
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<td>85</td>
<td>8.7%</td>
</tr>
<tr>
<td>90 or older</td>
<td>9.7%</td>
</tr>
</tbody>
</table>

*Age nearest birthday

QCD to Lifetime Income Example

- Jane is age 71 and transfers $20,000 from her IRA as a QCD
- Into a charitable gift annuity
- Payment rate is 6.0% for the rest of her life
- Each payment of $1,200 per year is taxed as ordinary income
- $20,000 never counted as income to Jane
- Income tax deduction – not needed
NEW: QCD to Lifetime Income

• Can now fund a CGA if:
  • CGA payments are taxed to donor as 100% ordinary income
  • One spouse can contribute with both spouses as income beneficiaries
  • Fixed payment rate must be 5% or higher
  • Cannot add outside funds to this CGA
  • The law is unclear but the $50,000 amount likely counts toward the $100,000 annual maximum

Taxation of Traditional IRAs and Qualified Retirement Plans (IRD Assets)

Assets remaining in these plans at death are subject to two layers of taxes:

**Estate Taxes:**
- Federal gift/estate tax (if taxable estate)
- State estate or inheritance tax (if taxable estate)

**Income Taxes**
- Federal income tax
- State income tax
Leaving IRA to Family Upon Death

IRA distributions over life expectancy limited to:

- Surviving spouse
- Disabled or chronically ill children (but 10-year rule starts at death or end of illness)
- Minors (but 10-year rule starts at 18 years)
- Beneficiary less than 10 years younger than IRA owner

For all others, ALL IRA assets must be withdrawn within 10 years of IRA owner’s death.

Most beneficiaries take a lump sum right away.

### Background Facts

- Jerry’s - $15 million estate, he has $700,000 in his IRA.
- He named his 2 children as equal beneficiaries of the IRA.
- When Jerry died, the children paid the income tax and his estate paid the estate tax.
- Even with the income tax deduction for estate taxes paid, the children ended up with approximately $264,000 after both taxes were paid.
Simplified Federal Tax Calculation

$ 700,000  IRA value
$ - 280,000  Federal estate taxes @ 40% bracket
$ 420,000
x 37%  Federal income tax bracket
= $155,400  Federal income taxes

Total taxes:  $280,000 + $155,400 = $435,400 or 62%

Net to Jerry's heirs:  $264,600 or 38%

If Jerry leaves IRA to family, more than 60% of Jerry's IRA is consumed to pay federal taxes.

Most clients want their hard-earned retirement plan or IRA to go to family or charity, not the IRS.
Did you know how heavily taxed your IRAs and retirement plans are to your beneficiaries?

• Yes

• No

* If your answer differs greatly from the choices above tell us in the chat!

Another Better Tax-wise Option for Jerry:

Leave the IRA to Charity at Death
Traditional IRAs and Other Retirement Plans are Great for Charitable Bequests

Charities are tax-exempt. IRAs bequeathed to charities are not subject to tax:

**Zero Estate Taxes:**
- Federal gift/estate tax
- State estate or inheritance tax

**Zero Income Taxes**
- Federal income tax
- State income tax

_The entire IRA donation will be used for charitable purpose._

---

**Leave to Charity at Death**

This planning technique avoids all the income and estate taxes normally due on qualified retirement plans and IRAs, and provides a substantial benefit to a charitable organization.
Background Facts

▪ Jerry names his favorite charity as the beneficiary of his $700,000 IRA.

▪ Doing this avoids all income and estate taxes due on the IRA because of the charitable status of the beneficiary.

▪ Charity receives all $700,000.

Results:

▪ Jerry retains total access and control over the IRA Account during his lifetime.

▪ Jerry can still change the IRA beneficiary at any time in the future—it’s revocable.
Technical Points

It’s simple to implement. The client only needs to change the beneficiary designation to charity on his or her account.

Technical Points

The spouse, if any, needs to consent to changing the qualified plan beneficiary (not for IRA accounts unless community property).
Tax-smart Alternative: “Charitable Stretch IRA”
Testamentary Charitable Remainder Trust

Upon death of retirement plan owner or survivor, assets are transferred to a Testamentary CRT outside probate.

Estate receives charitable estate tax deduction.

Trust distributes a fixed percentage of trust assets (ex. 5%) or a fixed amount to trust income beneficiaries for a 20-year term or for their lives.

After trust term, trust assets distributed to a charity or a group of charities based on donor’s specified allocation.

Case Study: $1M IRA for a 55 year old Heir
Testamentary Charitable Remainder Trust

Upon death of retirement plan owner or survivor, assets are transferred to a Testamentary CRT outside probate.

Estate receives charitable estate tax deduction of $321K.

Trust distributes 5% annually. Heir receives $50K in first year, $2.5M over 35 years, $1.9M after tax.

After trust term, trust assets of $1.9M distributed to a charity or a group of charities.

Assume: 7% investment return, 24% income tax on annual distributions
Benefits of Testamentary CRT Funded with Retirement Assets

- Prevents lump-sum distribution of retirement assets to heirs.
- Avoids immediate taxation of entire retirement plan assets; heirs pay income tax as they receive annual payout.
- Holds assets in trust -- protected from creditors.
- Provides a tax-free investment environment.
- Provides an annual payout stream to income beneficiaries.
- Estate gets deduction for charitable interest
- Provides a deferred benefit to charity.

**Husband 72 / Wife 70**

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<th>Amount</th>
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<tbody>
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<tr>
<td>Retirement Accts</td>
<td>$250,000</td>
</tr>
<tr>
<td><strong>Total Estate</strong></td>
<td><strong>$700,000</strong></td>
</tr>
</tbody>
</table>

**Before Planning:**
- Heirs: $625,000
- Charity: $0
- Taxes: $75,000

**After Planning:**
- Heirs: $700,000
- Charity: $250,000
- Up-front Taxes: $0

**Income Tax on Retirement Accounts**
- Government: $75,000/$0

**CRUT $250,000**
- 5% of $250,000 = $12,500/year
- 20 Years = $250,000 total
- Total $625,000

**Charity**

**Heirs**
Many of us, regardless of age, have retirement plans and IRAs. Leaving retirement plans to charity at death is good for someone who:

- Thinks they won’t need it all during their lifetime.
- Doesn’t want to see their plan depleted by more than 62% from taxes when they die.
- Wants to support charity, but down the road.

How Can I Navigate These Opportunities?

Don’t do it yourself. Seek guidance from:

- CPA
- Wealth Advisor
- Estate Planning attorney
- Philanthropic advisor
- Local community foundation staff
Reach Out to Your Advisor Team and Know Your Options

Estate Planning Attorney
Financial Advisor
CPA
Charitable Planner

What’s my next step?

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Mary Bet Dobson, CAP®
Senior Director of Individual Giving and Gift Planning
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QUESTIONS?

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