

Gifts of Retirement Plan Assets

What are they?

Retirement plan assets include your IRA, 401(k) and other tax-deferred retirement plans. Because they are considered “income in respect of a decedent” at your death – assets that would have been taxable to you if you had lived – they are taxable to your heirs even though they were taxed in your estate. As a result, 65% or even more of their value can be eroded by a combination of income and estate taxes. However, you can help preserve the funds you have saved for retirement by leaving these assets to charity and leaving other assets to your heirs.

What are the benefits?

TAX SAVINGS

If you name The Rhode Island Foundation as the beneficiary of your retirement plan, your unused benefits will be distributed upon your death to the Foundation free of both estate and income taxes. If you have children or other heirs, you can leave them the stock, real estate, or other assets that will not be taxable as income.

If you are married, you may want to leave your retirement plan assets to your spouse first and then to charity. This is because the marital deduction assures that no estate tax applies to a transfer to a spouse.

Another strategy utilizes a charitable remainder trust and lets you turn your retirement savings into a lifetime source of income for your children before giving the trust principal to The Rhode Island Foundation. This too can yield significant tax savings.

PERMANENCE

Any gift of \$10,000 or more can create a permanent, named charitable fund at The Rhode Island Foundation. Your fund will last forever, making annual grants to charity according to your wishes and in your name. Depending on the type of fund you establish, you can even name your children as advisors to the fund, allowing them to remain involved with the fund’s grantmaking throughout their lifetimes.

(over)

Retirement plans appropriate for “gifting”:

- Profit-sharing or other defined contribution plans
- 401(k) plans, which allow an employee to reduce taxable compensation
- 403(b) plans for employees of nonprofit organizations
- Individual Retirement Accounts

Gifts of Retirement Plan Assets, continued

Special considerations

The Roth IRA has tax consequences quite different from regular IRAs. Unlike a regular IRA, which incurs both an estate tax and an income tax when the account owner dies, the income tax for a Roth IRA has been prepaid. Only estate tax is paid when the Roth account owner dies. From a tax perspective, this makes the Roth IRA a less attractive gift to charity.

Annuity plans, such as defined benefit plans, generally cannot be used because payments may terminate on the participant's or surviving spouse's death, leaving nothing for charity.

The IRA Charitable rollover: a limited-time opportunity for 2011

On December 17, 2010, new legislation was passed extending the IRA charitable rollover until December 31, 2011. If you are at least 70 1/2, the new law allows you to transfer up to \$100,000 of your IRA assets directly to a qualified public charity as The Rhode Island Foundation; if you are married, you and your spouse can each transfer up to \$100,000. Since the assets you transfer will not be recognized as income, they will not trigger federal income taxes today or estate tax in the future.

Keep in mind that you only have until December 31, 2011 to accomplish your IRA charitable rollover. Also, certain rules apply. For example, the withdrawals can only come from an IRA, and they do not qualify for any additional charitable deduction. The withdrawals further cannot be rolled over to donor-advised funds, charitable gift annuities and charitable remainder trusts, or to private foundations and supporting organizations.

To learn more about the IRA charitable rollover and other gifts of retirement plan assets, contact our Development Office at (401) 274-4564. You can also visit our website, www.rifoundation.org, for a video presentation on gifts of retirement plan assets.

Note: *The Rhode Island Foundation does not provide legal or tax advice. The services of an attorney or other professional advisor should be obtained. For example, estate planners should verify the designated beneficiaries of a client's retirement plan because the designation takes precedence over the terms of a will.*