GIFTS OF RETIREMENT PLAN ASSETS

Many Kansans have taken advantage of generous tax incentives provided by tax law to save for their retirement years. Known as "qualified" retirement plans, these plans, Individual Retirement Accounts (IRAs), 401(k), Keogh and others, feature income tax benefits when contributions are made to the plan. Plus, the money in the plan accumulates tax-free until it is withdrawn for retirement.

Double Taxation

If your client chooses up-front to not pay taxes by saving for retirement in a qualified plan, your client's family will be required to pay the taxes later and quite likely in significant ways. When the qualified plan terminates, most likely at the end of your client's life or that of their spouse, the plan can potentially be subject to double taxation: Estate Tax and Income Tax. Your client's retirement plan could be taxed up to 68% if they don't plan properly.

Examples:

- A $100,000 retirement plan in a $1,000,000 estate (below threshold for estate taxes) creates $38,250 in income taxes - leaving $61,750 for the family – a 38% shrinkage.
- A $1,000,000 retirement plan in a $7,000,000 estate (above the threshold for estate taxes, may change in the future) creates $625,450 in income and estate taxes netting $374,550 for the family.

Given this potential "tax bite" how can you minimize or avoid this heavy taxation? Simply leave your hometown all or a portion of your IRA or other qualified plan. The following are some ways to use your qualified plan to benefit your hometown and favorite charities, while minimizing tax consequences.

Beneficiary Change

Simply change the beneficiary designation on your client's account to the Grant County Community Foundation for the benefit of their hometown or other favorite charities for all or a portion of the account balance. Favorable new IRS rules have made this option more attractive without increasing the required minimum annual payments at retirement.

Contingent Beneficiary

Naming the Grant County Community Foundation as a contingent or secondary beneficiary for the benefit of your client's hometown or other favorite charities gives their heirs the option to decline their right to receive the account assets should they decide not to pay the potentially heavy taxation on the account assets.

Income for Family

Your client's retirement account's value may be preserved and income provided to their family with the use of a Charitable Remainder Trust. The use of this trust could greatly reduce your client's federal estate taxes. Additionally, no income taxes would be payable on their retirement account assets.

Asset Replacement

In some situations, it may benefit your client's family to name the Grant County Community Foundation as the beneficiary of their retirement plan. A newly purchased life insurance policy would replace the value of your client's retirement plan that would have gone to their family, without the tax consequences.

Note: The above information is of a general nature and is not intended as legal advice.