The Benefits of Designating Your IRA to Charity

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MASONIC CHARITIES

Why Designate Your IRA to Charity

- A Traditional IRA is fully taxable at ordinary income tax rates to any beneficiary that receives a distribution from it, even your heirs
- Ordinary income tax rates can run as high as 37%
- An IRA left to anyone other than a spouse must be paid out within 10 years of the death of the Account Owner
- A capital asset such as real estate, stock, or bond that appreciates in value over time is taxed at capital gains rates, when sold
- Capital gain tax rates generally cap at 15% but can run as high as 20%

Why Give Your IRA to Charity

- Distributions from an IRA to Charity from a decedent's IRA are not taxable while such distributions are fully taxable to your heirs

- The sale of a capital asset at the death of the owner receives a step-up in basis and is received or sold based on the date of death value of the decedent thereby avoiding all predeath capital gain taxes

- For a charitably-inclined person, the gift of the IRA to charity and the capital asset to the heirs is the most tax efficient way of distributing your estate since income and capital gain taxes are avoided

- Unlike IRAs, capital assets are not subject to the 10-year distribution rule for inherited IRAs and can be held indefinitely

Let's See How it Works

Tom owns IRA worth $100,000, stock worth $100,000 with basis of $50,000

Tom designates MC to receive IRA

- Masonic Charities receives IRA
  Pays $0 tax

Tom leaves stock to son, Bill, at death

- Son, Bill, receives stock, sells it, and pays $0 tax*

*Bill's stock would be subject to PA Inheritance tax at 4.5% and for large estates possibly federal estate tax

What if We Distributed the Assets the Other Way?

Tom owns IRA worth $100,000, stock worth $100,000 with basis of $50,000

MC gets stock at Tom's death

- Masonic Charities receives stock, sells it and pays $0 taxes.

Bill designated to get inherited IRA

- Bill inherits IRA and must take all funds in 10 years. Bill's tax rate is 30% and pays $30,000 in taxes. Ouch!

Not All Assets are Alike

- When doing estate planning with your IRA see a financial advisor or estate planner to make sure you use the most tax efficient way to distribute your estate
- Other nontax reasons may impact your decision such as heirs that cannot manage assets
- Be aware that there are many tax buckets that can affect which is the best asset to give to charity and which to your heirs (i.e. federal income, capital gain and estate taxes; PA income and inheritance taxes)
- Consider a trust or charitable remainder trust to protect assets at death

More Information

Download presentation

Contact Office of Gift Planning at 1-800-599-6454 or email me at ablitz@masonicvillages.org

Watch my other presentations on IRAs to learn more on using an IRA in the most tax efficient manner