

# How To Make A Gift To Fair Oaks Presbyterian Church

## FROM YOUR INDIVIDUAL RETIREMENT ACCOUNT

*You can make a charitable gift from your IRA to Fair Oaks Presbyterian Church either during your lifetime or as a bequest at death.*

*An IRA can be a very attractive source for making a charitable gift since distributions from an IRA are usually taxable.<sup>1</sup> The income tax sting can be eliminated during your lifetime with an offsetting charitable income tax deduction. Upon a person's death, it is possible to structure a charitable bequest in such a way that the taxable IRA payments are made directly to the Church so neither the estate nor the heirs will have to report any taxable income from the IRA distributions.*

A bequest of your IRA assets to the Church avoids all estate and income taxes.

An IRA is subject to both federal income and estate taxes that could reach nearly 65%!

<sup>1</sup> The only exceptions are distributions from a Roth IRA, which are usually tax-free, and distributions of nondeductible contributions that were made to a conventional IRA

### **Making a Gift From Your IRA During Your Life**

You can make a charitable gift from an IRA to Fair Oaks Presbyterian Church during your lifetime, and obtain a tax benefit. Here is how it works. Any distribution from your IRA—even if it is paid directly to a friend or a charitable organization rather than to you—will trigger taxable income to you in the year of distribution. Under current law, a person cannot make a gift from an IRA during his or her lifetime without reporting the distribution as taxable income on his or her income tax return. The advantage of making a gift to Fair Oaks Presbyterian Church, though, is that there will be an offsetting charitable income tax deduction so that virtually no tax will be due from the distribution. In the year you make the gift, the charitable deduction is limited to 50 percent of your adjusted gross income. You can, however, carry it over for five additional years if necessary. To make the gift, request a distribution from your IRA after you have reached age 59 1/2 (no 10% IRS tax penalty) and direct your IRA administrator to make a distribution directly to the Church on your behalf.

### **Bequest of Your IRA To The Church**

An IRA can be one of the best assets to use for a charitable bequest. While normally an inheritance is exempt from income tax, distributions from an inherited IRA to the beneficiary are usually fully taxable. The payments are classified as "income in respect of a decedent" (IRD). IRD is the exception to the rule that most inheritances are exempt from the income tax.

If you are planning to make a charitable bequest, you should consider leaving the taxable IRA assets to the Church so your family and friends will receive more of the other tax-free assets (e.g., cash, stock and real estate). The Church will not be worse off. It is tax-exempt and will be able to keep the full amount of every IRA distribution without paying any income taxes.

### **Estate Taxes and Your IRA**

Whereas the highest current estate tax rate is 45 percent, inherited IRAs are subject to an even higher tax rate because each distribution will trigger an income tax liability. For most taxable estates over \$3 million, the combination of federal income and estate tax rates on IRA assets exceeds 60 percent. If your state has an income tax, those assets could be facing a total tax rate of nearly 65 percent!

A bequest of your IRA assets to the Church avoids all estate and income taxes. The Church will keep 100 percent of the IRA assets.

Your will does not govern your IRA so name Fair Oaks Presbyterian Church as the beneficiary on your IRA beneficiary designation forms.

How does this work? First, your estate will be able to claim a charitable estate tax deduction since the IRA will be transferred to the Church. Second, if you name the Church as the beneficiary on the IRA forms and if the IRA is distributed directly to the Church after your death, then neither your estate nor your heirs will have to report any taxable income from the distribution! Instead, the Church will have to report the income. This leads to the third point: Since the organization is tax-exempt, it will not have to pay any income tax when it receives the distribution. Thus, instead of having the government decide how to spend nearly 70 percent of your IRA assets, you can apply 100 percent of those assets to the Church to continue and expand its mission.

### **How to Make a Charitable Bequest of An IRA**

The best way to make a charitable bequest of your IRA assets is to name Fair Oaks Presbyterian Church as the beneficiary on your IRA beneficiary designation forms. Please note: Your will does not govern your IRA. An IRA is a separate trust or custodial account that usually passes outside of probate. The most important document, therefore, is the beneficiary designation form you receive from the IRA administrator. If you would like to leave some of your assets to the Church and the rest to other people, such as family members or friends, then extra steps may be advisable and you should consult your IRA administrator to find out what those steps are.

It is important to consult with a lawyer or other professional estate planner when deciding to make a bequest in your will, because the information in this publication is not intended as legal advice. For legal advice consult an attorney.

