Foundation Insider

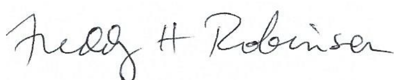
As we are fast approaching the end of yet another calendar year, I would like to put my CPA tax advisor hat on and discuss some tax planning ideas using qualified retirement accounts. The following comments are related solely to traditional retirement accounts and not Roth accounts, as they are not desirable for use in charitable planning. First of all, no withdrawals from retirement accounts for charitable purposes should be made until the year in which you become at least 59 ½ years old in order to avoid the 10% early withdrawal penalty. Secondly, it is important to note that using retirement accounts for charitable purposes will not result in a net tax benefit. Rather the objective is to neutralize the current or future unavoidable income tax cost of otherwise taxable withdrawals.

The principal advantage of utilizing retirement account funds for charitable contributions is that retirement accounts are one of the few assets that do not receive a step-up in basis at the owner's death. The step-up in basis is a provision in the tax code that requires the tax cost basis (original purchase price adjusted for splits, dividends reinvested, or capital distributions) to be "stepped -up" to the fair market value on the date of death. An individual's retirement account is reportable for estate tax purposes based on the fair market value on date of death and its tax cost basis is always zero. The individual beneficiaries of a decedent's retirement account never get a step-up in basis and will report all eventual distributions from the inherited IRA as ordinary income.

Required minimum distributions from your retirement account must begin In the calendar year when an individual reaches age 70 ½. Withdrawals from retirement accounts for charitable purposes can be made two ways. The first and most common option for anyone over 59 ½ is to withdraw the desired amount, have no tax withheld and deposit the funds in their personal bank account. Next, a personal check is written for the same amount deposited to any desired charitable organization, including a donor advised account at your favorite local Jewish foundation. Alternatively, the cash received can be retained for any purpose and an equal amount in value of long-term marketable securities can be contributed from a non-retirement account to any desired charity. The second type of charitable retirement withdrawal is a Qualified Charitable Distribution (QCD). The requirements for a QCD are 1) donor must be at least 70 ½, 2) payment must be directly from the retirement account to the desired charitable organization, 3) recipient must be a public charity, except cannot be a donor advised account, 4) limited to $100,000 per calendar year. Some of the advantages of making a QCD include the distribution is not included in the donor's taxable income, it is also not included a charitable contribution, and it counts toward fulfilling the donor's RMD for the current year.

Instead of gifting retirement assets to a charity during your lifetime as discussed above, you may designate a charitable organization, such as the Jewish Foundation of Greensboro, as the beneficiary of a portion or all of your retirement account upon your death. Under this option, the charity will be treated as receiving the distribution and the amount will not increase your taxable estate. Furthermore, since charities do not pay income taxes on the donations they receive, the distribution will avoid income tax.

By now, you should realize the tax laws governing retirement accounts and charitable planning are quite complex and should be executed using experienced advisors. It just so happens that the Jewish Foundation of Greensboro has two outstanding endowment professionals, Susan Gutterman and Frandee Woolf, who are ready and willing to help you achieve your family's charitable objectives. Once the ball falls at Times Square, your 2019 tax planning options are over.



Freddy H. Robinson
Foundation Chair

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