Retirement Plan Gifts

Many Americans have taken advantage of tax incentives provided by Congress to encourage saving for retirement through contributions to Individual Retirement Accounts (IRAs), 401(k)s and similar plans.

In addition to income tax savings at the time contributions are made to such plans, the assets in the plans build tax free over time for future enjoyment.

Amounts held in tax-favored retirement plans are typically not subject to income tax until they are actually withdrawn from the plan by the plan owner or surviving heirs. The Setting Every Community Up for Retirement Enhancement Act, better known as the SECURE Act, includes several changes that could encourage gifts from retirement plans.

Retirement Plan Estate Gifts May Avoid Double Taxation

You may want to consider including charitable gifts as part of your plans for the future distribution of any balances remaining in your retirement plans at the end of your lifetime. Because they are included as part of one's estate at death, the assets in tax-favored retirement plans can be subject to federal and/or state estate taxes.

In addition, when heirs receive the balance of retirement plans after payment of estate taxes of up to 40%, income tax may also be due on net amounts received—37% or more—depending on state income taxes and other factors. The combination of income and estate taxes that could eventually be levied on retirement accounts may, in some cases, amount to a large portion of an account's value.

Changes under the SECURE Act may encourage some donors to fund charitable gift arrangements that will provide payments to loved ones for life, or a term up to 20 years.

Making Gifts Today

You may also find that your retirement plan can sometimes be a convenient "pocket" from which to make charitable gifts to The United Church Board for Ministerial Assistance, Inc. this year.

If you are over the age of 59½, and can make withdrawals from your traditional IRA or other tax-favored retirement plan without triggering an early withdrawal penalty, you may wish to make withdrawals from retirement plans in amounts sufficient to fund all or a portion of your charitable gifts.

Although you may be required to report the income on your tax return, when you itemize your deductions, you could take a corresponding charitable deduction for your gift.

If you are able to deduct the full amount of the gift/withdrawal, this can often result in a "wash" for federal tax purposes and ensure these funds will, in effect, never be subject to gift, income, or estate taxes.

Special Tax-Free IRA Gifts

Those aged 70½ or older may wish to take advantage of an additional tax benefit by choosing to make their gifts using funds from a traditional IRA. Even if you don’t have to take required minimum distributions you can still make tax-free gifts from your IRA.

It is possible to make charitable gifts directly from IRAs to qualified charities annually in a total amount up to $100,000 free from federal income taxation. The income tax laws of most states allow tax-free treatment as well. Check with your advisor about qualified charitable distributions (QCDs) from IRAs.

This provision applies only to IRAs and not to 401(k)s, 403(b)s and other tax-favored retirement plans. Gifts must be made directly to a qualified charity and may not be made to donor advised funds, private foundations or supporting organizations or to fund trusts and similar life income gift arrangements.

Consider Giving from the Remainder… a Simple Idea

Your retirement assets are vital for your life income, medical requirements, family needs and other plans during your latter years. Your spouse or partner may also be dependent on these assets for their livelihood as the primary beneficiary.

Yet, unless your heirs have special financial needs, they likely anticipate that all these assets will be used for your needs; if they inherit any remaining assets, they must pay the income taxes.

Consider naming us as the final beneficiary of your retirement accounts by simply updating your beneficiary form with your custodian. Charitable recipients will not pay income taxes, and you will have continued your support of our vital mission.

See questions & answers about retirement plans
See advisor content about giving through retirement plans

The Rev. Dr. Jonathan B. Lee
Philanthropy Officer
(800) 642-6543 x2718
