The Columbus Foundation

CHARITABLE GIFT PLANNING

RETIREMENT PLAN ASSETS

Many donors have found it desirable to use their retirement plans for charitable giving purposes. If you plan to leave to your children the assets that you've spent a lifetime building up in a retirement plan, such as an IRA or Section 401(k) and 403(b) plans, you should be aware that those assets may be subject to double taxation. Estate* and income taxes may well amount to up to 70 percent of the assets in the plan, thus leaving only 30 percent to your children.

The Columbus Foundation, a taxexempt public charity, enables donors to receive a full charitable tax deduction for their gifts.

A retirement plan is a good candidate for a gift to The Columbus Foundation. Because the Foundation, a public charity, is a tax-exempt entity, no income tax is due on the retirement plan assets passing to the Foundation. In addition, the donor's estate receives a charitable estate tax deduction for the value of the gift.

Through this avoidance of both estate and income taxes, the after-tax cost of making the gift is much lower than the value of the gift itself. Other assets may then be used to provide for loved ones.

Case Study

With the unexpected death of his wife, Charles (age 74) is now reviewing his estate plan. He would like to provide for his two children and ultimately establish a fund in honor of his late wife at The Columbus Foundation to benefit his favorite charities. Charles' estate, after his wife's death, is valued at $6 million, with $4 million in cash, stocks, bonds, and real estate, and $2 million in an IRA and other retirement plans. This puts Charles in the 46 percent estate tax bracket. Charles' children, ages 49 and 51, are both in a combined federal and state income tax bracket of 40 percent.

**Estate taxes are due when transferring assets to children or loved ones other than the donor's spouse; retirement plan assets can be passed estate tax-free to a surviving spouse because of the unlimited marital deduction.*

By naming the Foundation as recipient of all or part of your retirement plan assets, you prevent double taxation and establish a permanent fund to benefit the community.

Illustration 1

Charles dies, having named his children as beneficiaries of his retirement plans.

Value of Retirement Plans	$2,000,000
Minus estate tax at 46%	$920,000
Balance	$1,080,000
Minus income tax on children at 40% rate	$432,000
Net distribution to children	$648,000
Total taxes as a percentage of plan assets ($1,352,000/$2,000,000)	67.6%
Total to children as a percentage of plan assets ($648,000/$2,000,000)	32.4%

Charles, believing that he has sufficient other assets to provide for his children, can name The Columbus Foundation as the sole beneficiary of his retirement plans on the forms provided by his plan providers and avoid paying estate and income tax on the assets when they pass to the Foundation, because the Foundation is a tax-exempt public charity.

Illustration 2

Charles dies, having named The Columbus Foundation as the sole beneficiary of his retirement plans.

Value of Retirement Plans	$2,000,000
Estate tax due	$0
Income tax due	$0
Balance of Retirement Plan to The Columbus Foundation	$2,000,000
Total taxes as a percentage of plan assets ($0/$2,000,000)	100%

Charles might want to use his retirement plans to benefit both his children and charity. He can accomplish this by donating his retirement plan assets at death to a charitable remainder trust. Charles can name his children as the initial beneficiaries of the trust and The Columbus Foundation as the charitable remainder beneficiary.

Charles' estate would receive a charitable estate tax deduction for the value of the gift that will eventually pass to charity, and his children will receive a stream of income for their lifetimes or for a period of years set by Charles. Also, because the trust is a tax-exempt entity, no income tax will be due when the retirement plan assets are distributed to the trust.

Giving retirement plan assets to charity can help support your favorite organization, while reducing the taxes you owe and perhaps even providing an opportunity for a tax-favored life income arrangement.

Illustration 3

Charles dies, having named a charitable remainder unitrust as the beneficiary of his retirement plan. His children receive an annual payment equal to 7 percent of the trust assets, which will be revalued annually. After 15 years the trust will terminate and the trust assets will be transferred to The Columbus Foundation.

Value of Retirement Plans (Amount Funding Trust at Death)	$2,000,000
Estate charitable deduction from creating the trust (Based on 7 percent payout to children for 15-year term)	$696,520
Income tax	$0
Estate tax on retirement plans (Paid from the balance of Charles' estate)	$599,601
Annual income to children (7% of $2,000,000) (Year 1)	$140,000
After-tax income to children over 15-year life of trust	$1,352,139
Value of gift to charity when trust matures in 15 years	$2,321,938

It is assumed that for the life of the trust the investment return on an annual basis is 4 percent income and 4 percent capital appreciation. It is also assumed that the applicable federal discount rate is 5 percent.

NOTE: The Columbus Foundation is not engaged in rendering legal or tax advisory service. The purpose of this publication is to provide information of a general character only. Watch for tax revisions. State laws govern wills, trusts, and charitable gifts made under a contractual agreement. There are a myriad of options available for the disposition of one's qualified retirement plan. For advice and assistance in specific cases, the services of an attorney or other professional advisor should be obtained.

Individuals should take a close look at the tax aspects of their retirement plans. Giving retirement plan assets to charity can help support your favorite organization, while reducing the taxes you owe and perhaps even providing an opportunity for a tax-favored life income arrangement. Even in estates totaling less than $2 million, the exemption amount in the years 2006–2008, giving retirement plan assets to charity can be the most tax efficient way to benefit charity and your heirs at the same time.

ABOUT THE COLUMBUS FOUNDATION

Serving the region since 1943, The Columbus Foundation is the *trusted philanthropic advisor®* to more than 2,000 individuals, families, businesses, and communities who have created unique charitable funds to make a difference through the most effective philanthropy possible. With assets of more than one billion dollars, The Columbus Foundation is the seventh largest community foundation in the world. The Foundation's online resource, **PowerPhilanthropy**,® makes it possible for donors and the community to access valuable, comprehensive information about hundreds of central Ohio nonprofits.

WE'RE HERE TO HELP!

Learn more about The Columbus Foundation by visiting us at *www.columbusfoundation.org* or in person at 1234 East Broad Street, Columbus, Ohio 43205. Please contact one of our Donor Services and Development officers by calling 614/251-4000 or e-mailing *dsd@columbusfoundation.org*.