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Can I make charitable contributions from my IRA?

Yes, if you qualify. The law authorizing “qualified charitable distributions,” or QCDs, has recently been extended through 2011.

You simply direct your IRA trustee to make a distribution directly from your IRA (other than a SEP or SIMPLE) to a qualified charity. You must be 70½ or older, and the distribution must be one that would otherwise be taxable to you. You can exclude up to \$100,000 of QCDs from your gross income in 2011. If you file a joint return, your spouse (if 70½ or older) can exclude an additional \$100,000 of QCDs in 2011. But you can’t also deduct QCDs as a charitable contribution on your federal income tax return--that would be double dipping.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to take from your IRA in 2011, just as if you had received an actual distribution from the plan. However, distributions that you actually receive from your IRA (including RMDs) that you subsequently transfer to a charity cannot qualify as QCDs.

For example, assume that your RMD for 2011 is \$25,000. In June 2011, you make a \$15,000 QCD to Qualified Charity A. You exclude the \$15,000 of QCDs from your 2011 gross income. Your \$15,000 QCD satisfies \$15,000 of your \$25,000 RMD. You’ll need to withdraw another \$10,000 (or make an additional QCD) by December 31, 2011, to avoid a penalty.

You could instead take a distribution from your IRA and then donate the proceeds to a charity yourself, but this would be a bit more cumbersome, and possibly more expensive. You'd include the distribution in gross income and then take a corresponding income tax deduction for the charitable contribution. But the additional tax from the distribution may be more than the charitable deduction, due to IRS limits. QCDs avoid all this by providing an exclusion from income for the amount paid directly from your IRA to the charity--you don't report the IRS distribution in your gross income, and you don't take a deduction for the QCD. The exclusion from gross income for QCDs also provides a tax-effective way for taxpayers who don't itemize deductions to make charitable contributions.

Can I name a charity as beneficiary of my IRA?

Yes, you can name a charity as beneficiary of your IRA, but be sure to understand the advantages and disadvantages.

Generally, if you name a spouse, child, or other individual as beneficiary of a traditional IRA, they must pay federal income tax on any distribution they receive from the IRA after your death. By contrast, if you name a charity as beneficiary, the charity will not have to pay any income tax on distributions from the IRA after your death (provided that the charity qualifies as a tax-exempt charitable organization under federal law), a significant tax advantage.

After your death, distributions of your assets to a charity generally qualify for an estate tax charitable deduction. In other words, if a charity is your sole IRA beneficiary, the full value of your IRA will be deducted from your taxable estate for purposes of determining the federal estate tax (if any) that is due. This can also be a significant advantage if you expect the value of your taxable estate to be at or above the federal exclusion amount (\$5 million for 2011).

Of course, there are also nontax implications. If you name a charity as sole beneficiary of your IRA, when you die your family members and other loved ones will obviously not receive any benefit from those IRA assets. If you would like to leave some of your assets to your loved ones and some assets to charity, consider leaving your taxable retirement funds to charity and other assets to your loved ones. This may offer the most tax-efficient solution, since the charity will not have to pay any tax on the retirement funds. If the retirement funds are a major portion of your assets, you might consider leaving those funds to a charitable remainder trust. Under this type of trust, the trust receives the funds free from income tax at your death, then pays a lifetime income to individuals of your choice. When those individuals die, the remaining trust assets pass to the charity. Finally, another option is to name the charity and one or more individuals as co-beneficiaries.

The issues discussed here are complex. Be sure to consult an estate planning attorney for further guidance.