



## Who Should Inherit Your IRA?

### *How Family and Friends Lose Out*

*If you are planning to make a charitable gift from your estate, consider leaving your taxable IRA assets to us so your heirs will not face federal income taxes and possibly estate taxes. They can then receive more of your other income tax-free assets (e.g., cash, stock and real estate) and we will be able to keep the full amount of every IRA distribution because of our tax-exempt status.*

#### Fast Facts

- If you leave an IRA to your heirs, they may face double taxation (federal estate and income taxes).
- Instead of having the federal government tax more than half of your IRA assets, you can apply 100 percent of those assets to a charitable purpose that is important to you.
- An IRA is one of the best assets to fund a charitable gift from your estate.
- The best way to make a gift of your IRA assets is to name your favorite charitable organization as the beneficiary on your IRA beneficiary designation forms.

**Example:** Frank wants to treat his two grandchildren, Patty and Michael, equally. Upon his death, he leaves Patty \$100,000 in stock that he had purchased for \$60,000. He leaves his \$100,000 IRA to Michael. When Patty receives her \$100,000 in stock, she will not have to pay any capital gains tax. In fact, she obtains a "stepped-up" cost basis to the date-of-death stock value so that if she sells the stock for \$100,000, she will pay no capital gains tax.

By comparison, when Michael receives the \$100,000 from the IRA, the entire amount will be subject to income and possibly estate taxes because IRA distributions are taxable, even after death. Consequently, Frank did not treat his two grandchildren equally. Michael will receive less money than Patty after he pays the tax liability.

## Estate Taxes and Your IRA

Inherited IRAs are subject to tax because each distribution will trigger an income tax liability and a potential estate tax liability. For most taxable estates, the combination of federal income and estate tax rates on IRA assets can reach nearly 64 percent.

### A Charitable Solution

A bequest of all or a percentage of your IRA assets to a charitable organization eliminates all estate *and* income taxes. The charity will keep 100 percent of the IRA assets and will apply them to a charitable purpose you choose.

Your estate benefits in two ways:

1. **Your estate may claim a charitable *estate tax deduction*** because the IRA will be transferred to a charitable organization.
2. **Neither your estate nor your heirs will have to report any taxable income from the distribution** if you name the charity as the beneficiary on the IRA forms and if the IRA is distributed directly to the charity after your death. Meanwhile, because a tax-exempt organization is the beneficiary, it will not have to pay any income tax when it receives the distribution.

**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 in this case, therefore, is the beneficiary designation form you receive from the IRA administrator.

**For more information,** see a competent tax advisor. With good planning, you can make a major charitable gift of your IRA at a very small cost to your heirs.

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#### beneficiary

an individual or organization designated to receive benefits or funds under a will or other contract, such as an insurance policy, trust or retirement plan



#### capital gain

the increase in value of an asset like stock or real estate since the original purchase



#### cost basis

the original value of an asset, before its appreciation or depreciation

