Express Your Charitable Intent with Your IRA

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Many of our firm's clients opt to leave a portion of their estate to charitable organizations such as social service agencies, churches and educational institutions. In many cases, charitably inclined individuals will designate a specific amount or a percentage of their residual estate to be left to one or more charities or nonprofit institutions.

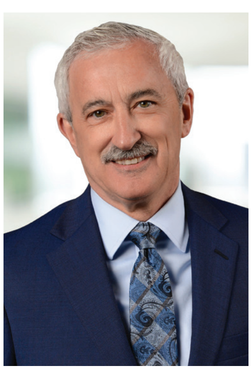
As part of our comprehensive financial planning, we examine the provisions in our clients' wills. Certain elements of their estates — like IRAs, annuities and life insurance — do not pass through the will; they pass direct to the named beneficiaries. We periodically review beneficiary designations with our clients and work with their attorneys to ensure everything is properly coordinated.

In some cases, charitable intent is obvious, such as when a client designates a charity as one of the beneficiaries of an IRA. In other cases, we learn of the charitable Intent through conversation or by reviewing the will. Those conversations include discussions about taxes and the tax status of their charitable contributions. Would your family rather receive funds that are subject to income tax, or funds that come to them free of income tax? Yes, the long-term tax deferral of an Inherited IRA is very valuable. But paying no tax at the margin is better. Here are two actual cases that shed light on the distinction:

Case #1: A client had an IRA and a Roth IRA with certain individuals and charities named as beneficiaries. Upon review of the will, we found that certain individuals and charities were also named in the will. The after-tax investment account, bank accounts, home and auto will pass through the will. We prepared a detailed summary of the total estate and listed the amounts that would be received by each individual and each charity. Then we changed the beneficiary designations on the IRA and the Roth IRA, and the client's attorney changed the will. The charities will receive funds from the IRA, and the individuals will receive the remaining funds in the IRA, 100 percent of the Roth IRA and the assets passing through the will. The funds paid from the IRA had never been taxed, but the charities are tax-exempt and thus pay no tax on that money. The bulk of the estate passed to individuals came free of income tax from the Roth IRA and from after-tax assets passed through the will. The changes to how the funds were to be distributed resulted in an increase of more than $40,000 to be received by the individual inheritors. We redeployed tax dollars from Washington to entities that the client supports, and increased the value to family and other individuals named in the will.

Case #2: The client, whose spouse was deceased, had a substantial IRA as well as substantial after-tax investments, bank accounts and a home. The client also had a significant bequest in the will to a university. We opened a separate IRA, transferred the amount designated for the university to the new IRA, and named the university as beneficiary. The client's attorney then changed the will to leave the entire estate to the client's children. The children received the IRA assets with the exception of the amount designated for the university. The university receives its money tax-free and the net cash to be realized by the children was increased by more than $20,000.

These are just some of the tax strategies that allow people with charitable Intent to maximize the after-tax amount to be received by loved ones and provide more support for their charities by, in effect, redeploying tax dollars. They also serve as an example of the benefits of a well-coordinated and comprehensive financial plan.



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Based in the Erie, Pennsylvania, office of HBKS® Wealth Advisors, Joe Kloecker works holistically with clients, helping them to preserve and grow wealth, to develop investment and wealth protection plans that meet their financial goals and to achieve the objectives for themselves and their families that their wealth can provide. Most of his clients are business people in or near retirement and their families, including many colleagues from his banking days as well as clients introduced to him by HBKS® colleagues.