Sunnyside Communities

Will You Avoid the IRA Tax Trap? The IRS is Waiting to Take its Share.

Learn to avoid the IRA tax trap. A clear overview of the benefits of using IRAs and other retirement plans to fund estate gifts.

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There are Traps in Retirement Planning ...

Your retirement plan is probably one of your two largest assets, whether it is an IRA, Keogh, 401(k), 403(b), or other account. You've invested it for growth and have been cautious about taking withdrawals. With good planning, you figure, you and your spouse will not spend the current total in your lifetimes, so this could be a substantial asset to pass on to your heirs.

Watch out! The IRS considers the balance left in your retirement account to be untaxed income. They term it "Income in Respect of a Decedent" (IRD), and if you bequeath that balance to your heirs, the IRS will subject it to both income and estate tax. This potential double taxation can consume as much as 60 percent of the value of your account, leaving less than one-third to your heirs (not to mention state inheritance taxes and possible Generation-Skipping Tax if the balance goes to grandchildren).

The recently enacted SECURE Act has made the tax implications of leaving your retirement plan assets to most heirs, other than a spouse even more onerous. The new law requires heirs to withdraw and pay taxes on all funds in their inherited retirement plan within 10 years. For many heirs, this may push their income into higher brackets and may even subject them to the 3.8% net investment income tax.

What to Do?

Think charitably, and your heirs can actually come out ahead.

Name Sunnyside Communities as the beneficiary of your retirement plan, and then use other assets, not subject to income tax, to make gifts to children, family, and friends. Since we are a non-profit organization, we won't pay income tax on the distribution (nor will the plan balance be included in your taxable estate). In turn, your heirs will receive more of your estate by taking assets not burdened by extra taxes.

The Benefits:

- You will escape both income and estate taxes
- You can continue to take withdrawals from your retirement plan during your lifetime;
- You can change the beneficiary designation if your circumstances change;
- You can make a significant gift to us that costs you nothing during your lifetime, is revocable, and does not affect your income or cash flow.

Planning Points

- You can make us a partial beneficiary of your plan, and direct the

balance to your heirs. At your death, the plan administrator will withdraw our share, providing an immediate gift to us and leaving the balance to benefit your loved ones.

- Use your plan's beneficiary designation form to direct your gift to us. Don't use your will — if you do, your retirement plan may be included in your probate estate and subject to the estate administration process.

- Don't use the balance in your retirement account to satisfy a dollar-amount bequest to us that is already in your will. Your estate may be treated as having received taxable income in the amount.

- You can provide for the payment of the balance of your retirement plan to your heirs after your death through a charitable remainder trust. They would be the lifetime beneficiaries of such a trust, and the remainder would come to us to support the program you designate. Talk to your financial advisors and us to project whether your heirs would benefit more from this gift plan or from withdrawals from your retirement account.

- You can make a lifetime withdrawal from your retirement plan to fund an outright gift to us or set up a life-income gift. Remember that the withdrawal will be subject to income tax first, but that tax will be offset by the charitable deduction you receive for your gift. If your gift is outright, the net tax result could be could be a wash.

How Do I Do It?

First, consult with your plan administrator and your advisors. When you're ready to move forward, simply notify your plan administrator of your wish to change the beneficiary designation. We are ready to assist you through every step of the process.

Contact Information

Planning your estate and legacy for future generations including your charitable interests takes careful evaluation. Consulting with the appropriate professionals can assist you. Discussing your charitable intentions with us can lead to a much better result than going it alone — and will ensure that your gift is used just as you wish. We can provide valuable information about any of the creative giving techniques mentioned in these planned giving pages.

Act now to take the steps that you need to do to be a good steward of the resources you intend to leave behind. You can contact us below, or use our request for information form on our website to get more information.

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