GIFTS OF IRA ASSETS AND OTHER QUALIFIED PLANS

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Introduction

According to the Investment Company Institute, United States retirement assets of all types totaled $34.9 trillion as of December 31, 2020. Individual Retirement Account (IRA) assets accounted for $12.2 trillion of the total. Much of the growth in these assets has resulted from rollovers from employment-based qualified retirement plans, especially 401(k) plans. The total assets in 401(k) plans was $6.7 trillion and in other defined contribution plans, such as 403(b) and Keogh plans, was $2.9 trillion. The assets in all these plans add up to over $21 trillion that could be used to make charitable gifts.

This paper will explore ways that donors can use retirement plan assets to make charitable gifts, both during life and at the end of life.

I. Gifts of Retirement Funds during Life

This section describes various ways gifts of retirement funds may be made during a donor's lifetime. In each case, both the giving method and its application to donor situations are discussed.

A. Make a Qualified Charitable Distribution from a Traditional IRA to One or More Charities.

With the exception of a Roth IRA, when a donor withdraws funds from a retirement plan, the donor typically must report the withdrawn funds on her income tax return for the year. If the donor is less than 59 ½ years old, she may owe a 10% penalty tax on her withdrawal in addition.

A qualified charitable distribution (QCD), sometimes referred to as a "charitable IRA rollover," enables qualifying donors to transfer funds from their traditional IRA or Roth IRA directly to a public charity without recognizing any income from the withdrawal or receiving a deduction. Because the donor doesn't declare the withdrawal as income on his or her tax return, a charitable IRA rollover never results in additional income tax for the donor, even if the donor is among the 90% of taxpayers who does not itemize their deductions.

After becoming available for the first time in 2007 on a temporary basis and renewed several times after that, the QCD was made permanent by the PATH Act of 2015. Since then, this giving technique has become an increasingly popular method for making charitable gifts.

To make a QCD, the donor must meet the following requirements:

- The donor is age 70½ or older.

- The gift is made to a public charity, not to a private foundation, donor advised fund, or supporting organization.

- The donor receives no benefit in exchange for the gift. (This rules out gifts for life income arrangements.)

- The gift, combined with other QCDs made during the year, do not exceed $100,000.*

- The donor must have documentation from the charity that the distribution was received and that he or she received no benefits.

- The QCD can be made only from a traditional or Roth IRA. Similar transfers from a 401(k) or 403(b) plan would be treated as a taxable distribution. A donor could, however, roll assets from either of these plans into an IRA and subsequently authorize a distribution to charity from the IRA.

* The amount of a QCD that can be excluded from income is reduced, dollar-for-dollar, by deductible IRA contributions made after the account owner reaches 70 ½. For example, if the account owner has contributed $20,000 to her IRA since turning 70 ½ and then makes a $50,000 QCD, she will be able to exclude $30,000 of the QCD from her income and will have to report the other $20,000 as income. She will be able to declare a $20,000 charitable deduction for that portion of her gift, which may or may not completely offset the tax on the additional $20,000 of income she must report.

Benefits:

- Unlike other withdrawals from an IRA, funds transferred by QCD do not increase the donor's taxable income for the year.

- Funds transferred by QCD count towards the donor's required minimum distributions from an IRA. More discussion below.

- Funds transferred by QCD can fulfill the donor's pledge to a charity.

Required minimum distributions

Once the owner of an IRA turns 72 (increased by the SECURE Act from 70 ½, starting in 2020), the owner is required to withdraw a designated minimum percentage of the plan balance each year. The percentage increases with the owner's age. The withdrawal for the year during which the owner turns 72 must occur by April 1 of the following calendar year. Minimum withdrawals for all subsequent years must occur by December 31 of that calendar year. Each year, the IRS publishes the minimum distribution table that is applicable for that year. The table below shows the minimum distribution percentages in 2022 for ages 72 – 99.

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Uniform Lifetime Distribution Table for 2022

Age	Minimal Withdrawal	Age	Minimal Withdrawal	Age	Minimal Withdrawal
72	3.65%	81	5.15%	90	8.20%
73	3.77%	82	5.41%	91	8.70%
74	3.92%	83	5.65%	92	9.26%
75	4.07%	84	5.95%	93	9.90%
76	4.22%	85	6.25%	94	10.53%
77	4.37%	86	6.58%	95	11.24%
78	4.55%	87	6.94%	96	11.90%
79	4.74%	88	7.30%	97	12.82%
80	4.95%	89	7.75%	98	13.70%
				99	14.71%

The cost of not taking the full required minimum distribution (RMD) for the year is substantial. A 50% excise tax is applied to the difference between an owner's total withdrawals for the year and the owner's RMD for the year.

The RMD contributes to a taxpayer's adjusted gross income (AGI). The AGI, in turn, factors into calculations that may have a financial impact on the donor, such as eligibility for, and imposition of taxes on, certain federal benefits. The AGI is also a key component in calculating how much of a donor's charitable contributions can be deducted in a year.

Examples of how AGI can impact a taxpayer include:

(1) Social Security – The greater the AGI the more of the individual's Social Security income becomes subject to tax.
(2) Medical expenses – The taxpayer's AGI is the basis for computing the deductibility of medical expenses.
(3) Roth IRA contributions - Eligibility for contributions to a Roth IRA are determined by a modified AGI calculation.
(4) Medicare premiums - Part B premiums can rise significantly as AGI increases.
(5) Charitable contribution deductions – For donors who itemize, charitable contributions of cash can be deducted up to 60% of AGI (30% of AGI for gifts of long-term appreciated assets), with the ability to carry forward any unused deduction for up to five additional years. A donor who wishes to make a large charitable gift may not be able to deduct the entire amount of the gift in one tax year.

To the extent that a donor needs to withdraw retirement funds to meet her required minimum distribution and wants to make outright charitable gifts, it is advantageous for the donor to use QCDs to make those charitable gifts. She must withdraw the funds, regardless. She can guarantee herself the maximum tax benefit of those gifts – no increase in income taxes – by making them with QCDs.

The QCD is most beneficial to donors who:

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- Do not itemize their charitable deductions. Approximately 90% of U.S. taxpayers take the standard deduction rather than itemize their deductions.

- Regularly contribute 50 percent of their adjusted gross income to charity, in which case they could deduct only one-half of an amount they withdrew from an IRA and then contributed (this assumes other charitable gifts equal exactly 50% of AGI, excluding the IRA withdrawal).

- Live in a state with a state income tax that does not permit charitable deductions, such as Massachusetts.

- Like the simplicity of transferring money from an IRA rather than the two-step process of taking a taxable withdrawal and then contributing it to charity.

The QCD is less appealing to donors who:

- Live in a state that exempts all or a portion of retirement distributions from state income tax and that allows a deduction for charitable gifts on the state income tax return. Those donors would generally benefit more from taking a taxable distribution, then contributing it to charity and claiming a deduction on both the federal and state income tax returns.

- Have highly appreciated securities which could be contributed. (See below for a description of an alternative involving appreciated stock.)

- Have an uncooperative IRA administrator.

B. Withdraw Retirement Plan Funds and Give Cash to Charity Outright

It is generally better for a donor to let the funds remain in her retirement plan where income and dividends can be reinvested tax-free and to use other assets to make charitable gifts. That being said, if the donor itemizes deductions and they are not limited in any way, then funding a gift with funds withdrawn from her retirement plan should produce a deduction that exactly offsets the income she must report. The result is a wash: withdrawing the funds and giving them away have no effect on the amount of income tax the donor will owe.

C. Contribute Appreciated Stock and Receive a Cash Distribution from a Retirement Plan Equal to the Value of the Stock.

This could be an appealing alternative to the donor who has appreciated securities, who itemizes deductions, and who would be able to deduct the fair market value of the stock, subject to the 30-percent deduction ceiling.

Example: John, who is over age 70½, would like to make a $50,000 gift to charity. His required minimum distribution from his IRA exceeds $50,000. He also has a stock with a fair market value of $50,000 with a cost basis of $10,000. One option is to instruct his

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IRA administrator to make a QCD of $50,000 from his IRA to the charity, which would count against his RMD without increasing his taxable income. Another option is to contribute the stock and take a taxable distribution of the $50,000 that he could have contributed to the charity via a QCD.

Assuming he elects the second option and is able to deduct the entire $50,000 for the gift of stock, the deduction offsets the distribution, so he pays no more tax than he would have by making a QCD. If he thinks the stock is a good investment that is likely to increase in value over time, he can use his $50,000 of cash to repurchase it, thereby achieving a stepped-up basis. If he sells the stock after it rises in value to $70,000, he would be taxed on only $20,000 of gain. If he had retained the stock and made his gift via the QCD, he would have been taxed on $60,000 of gain when the stock was sold for $70,000. Assuming a 15% capital gains tax rate, John would save $6,000 in tax by giving the IRA assets to charity rather than the stock (15% x $40,000 difference in gain). If he did not want to hold on to the stock, he could have used the $50,000 to purchase different stocks and adjust his portfolio. Note that if the stock pays a dividend, giving the stock and repurchasing shares with cash from the IRA will result in the donor owning fewer shares of the stock and therefore receiving less in total dividends from it.

This option enables John to satisfy part of his required minimum distribution without taxation of IRA funds (a result he could also have achieved with a QCD), and it has the added tax benefit of avoiding tax on capital gain in the stock. The option would be less appealing if John lives in a state where retirement fund distributions are subject to state income tax but no deduction is allowed for charitable gifts.

D. Combine a Charitable Gift with a Roth IRA Conversion

A Roth IRA has two major advantages over a traditional IRA. First, distributions to the owner and to heirs are not taxed, though in the case of a conversion there is a five-year waiting period before both principal and earnings can be withdrawn without tax. Second, there are no required minimum distributions. With a traditional IRA, once the owner attains 72 he or she must withdraw an ever-increasing percentage each year, but distributions from a Roth IRA are entirely at the discretion of the owner. An individual who does not need the money for living expenses could let the fund grow and then pass it entirely tax-free to heirs.

The disadvantage of a conversion is that the money transferred from a traditional IRA to the Roth RA is fully taxable. In some cases, it will be better to pay tax now and receive money tax-free in the future, but in others continuing the traditional IRA may be the better course. In general, a conversion makes sense for those who have a longer time horizon and for those who expect their future tax bracket to be as high as or higher than their current one. A conversion is probably not beneficial for those who are older, who expect their tax bracket to decrease, or who will need to start regular withdrawals in the near future.

A good strategy would be to generate a charitable deduction that could offset all, or a substantial portion, of the additional taxable income resulting from the conversion.

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<u>Example</u>: David has been planning a $100,000 gift to a charity, and he is interested in a Roth conversion, but he hesitates to pay the tax he would incur. He contributes $100,000 cash to the charity and during the same year transfers $100,000 from his traditional IRA to a Roth IRA. He adds $100,000 to his taxable income, but he deducts the same amount, paying no more tax than usual. In the future, he, and then his heirs, will have a source of tax-free money. To deduct the full $100,000 on both his state and federal income tax returns, he would have to live in a state that allows itemized deductions on the state income tax return, and his adjusted gross income would have to be large enough to report the entire deduction on his federal and state income tax returns.

Suppose that, instead of contributing cash, David donated stock having a market value of $100,000 and a cost basis of $40,000. He would still be entitled to a $100,000 deduction to offset the taxable income arising from the conversion, and he would avoid taxation of the gain in the stock. Thereby, he would have a double benefit. The only disadvantage is that the deduction ceiling for this kind of gift on his federal return is 30 percent of adjusted gross income. Thus, to deduct the full $100,000 in a single year, he would need to have at least $233,333 of income from other sources. [30% x ($233,333 + $100,000) = $100,000], more if he has other charitable deductions.

Although this example concerns an outright gift, it would be possible to generate the needed deduction through a life income gift, such as a charitable remainder trust or a gift annuity. For example, a donor with low-basis rental property might contribute it to a "flip" net-income charitable remainder unitrust, do a Roth IRA conversion, and use the deduction from the unitrust to offset the additional taxable income resulting from the conversion. In addition to providing tax-free income in the future through the Roth, the donor would, through the flip unitrust, offload management responsibility for the rental property, avoid being currently taxed on capital gain in the property, and possibly increase cash flow.

E. Fund a Gift Annuity (or Other Life Income Plan) With a Distribution from a Retirement Plan.

An outright contribution of a cash distribution from a retirement plan (or appreciated assets equal in value to the distribution) may be a wash, resulting in no tax cost. However, that will never be the case if retirement plan distributions are contributed for a gift annuity or other life income plan. The reason is that 100 percent of the distribution will be taxable (unless it's from a Roth IRA or designated Roth 401(k) or 403(b)), but only a portion of the contribution will be deductible.

One possibility is to withdraw money from the retirement plan, reserve whatever will be required for tax, and contribute the balance of the withdrawn amount for a gift annuity or other life income plan. The amount of the withdrawal that can be contributed without out-of-pocket cost can be calculated using the following formula:

$$C = \frac{W(1-R)}{1-RD}, \text{ where}$$

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C = Contribution for the gift annuity, charitable remainder trust, or pooled income fund

W = Withdrawal from the retirement plan

R = Donor's marginal tax rate

D = Deduction factor (percentage of contribution that is deductible)

Example of Lifetime Gift Annuity Funded with IRA Assets: Martha, whose is 72, has substantial funds in her IRA, and would like to make a gift from it and receive payments for life. She withdraws $100,000 of her IRA funds, withholds enough to cover the tax on the distribution, and contributes the balance for a gift annuity. The $100,000 she withdraws will, of course, count towards her required minimum distribution. Her marginal income tax bracket is 32 percent.

Implications under Current Law

Amount withdrawn from IRA	$100,000
Amount withheld to cover taxes	- $20,746 *
Amount contributed for gift annuity	$79,254
Total annual annuity payments (4.9% rate)	$3,883
Taxation of payments during each full year of life expectancy:	
Ordinary income	$843
Tax-free return of capital	$3,040
After-tax cash flow (assuming a 32% tax rate)	$3,614

Calculations are based on a 1.6% IRS discount rate.

* The amount withheld to cover taxes takes into consideration the deduction allowed for the contribution of $79,254. Were it not for this deduction, a larger amount would have to be withheld to cover taxes.

F. Divide an IRA into Two IRAs and Structure One of Them like a Gift Annuity

Suppose Brian has $800,000 in his IRA and would be willing to transfer $100,000 from his IRA for a gift annuity if the QCD legislation were expanded to permit a tax-free transfer of IRA funds for a life income plan. That does not seem likely, at least for now, but there is a way for Brian to achieve essentially the same result. He divides his IRA into two IRAs, one with $700,000 of assets and one with $100,000 of assets. He names a charity as beneficiary of the smaller IRA and he withdraws from it each year the amount the charity would have paid him if it had been possible to transfer the IRA funds for a gift annuity. He is now age 73, so the annuity rate would have been 5.1 percent.

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Each year he withdraws from the smaller IRA $5,100, and at the end of his life whatever remains in that IRA will pass via beneficiary designation to the charity. The funds in both IRAs continue to be invested in the same manner as the single IRA with the same administrator. His withdrawals are fully taxable, but as proposed in draft legislation that would expand the QCD to include life income plans, the annuity payments would be fully taxable anyway. Likewise, while this plan produces no income tax deduction for Brian, under the draft legislation there would be no deduction for a QCD used to fund a life income plan (just as there is no deduction now for a QCD used to make an outright gift).

Brian must make sure that total withdrawals from both IRAs together equal his required minimum distribution, but that should not be difficult. As is true of all beneficiary designation gifts, the main disadvantage for the charity is that Brian could conceivably change the beneficiary of the smaller IRA. An advantage is that the charity assumes no financial risk as it would with a gift annuity.

G. Contribute Distributions that Include Company Stock

Sometimes a company's retirement plan (often a 401(k)) is heavily invested in the company's own stock, and it may have a lot of net, unrealized appreciation. If a participant in the retirement plan receives a lump-sum distribution – perhaps upon separation from service – that person recognizes as income only the purchase price of the stock, not its full value. The gain is taxed when the stock is sold, but it is capital gain, which is currently taxed at a lower rate than income.

One possibility is for the participant to contribute the distributed company stock to a charitable remainder trust. He or she receives a charitable deduction based on the full market value, is not taxed on the gain, and, of course, also receives payments from the trust each year. The trust, being tax-exempt, is also not taxed on the gain. Thus, this is a great way for the employee to diversify without tax cost. (The treatment of gain is described in IRS Notice 98-24 and in several private letter rulings such as 200335017, 200302048, and 200215032.)

<u>Example</u>: Lewis, who is 68, receives a lump sum distribution of company stock from the company's 401(k) plan. The stock is valued at $200,000, and the plan purchased it for $20,000. Lewis pays tax on $20,000 and contributes the stock for a standard charitable remainder unitrust that distributes 5% of its value each year. He avoids immediate taxation of the $180,000 of gain, and receives payments of $10,000 in the first year. Other benefits are a charitable deduction of over $98,000 plus the opportunity to diversify. Given the benefits, it is surprising that so many employees who receive lump-sum distributions of company stock continue to hold it rather than diversify through a charitable remainder trust.

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II. Gifts of Retirement Funds at the End of Life

The most tax-efficient end-of-life charitable gift is made with remaining retirement funds. That is because the gift is subject neither to income nor estate tax. A person who wants to divide estate assets among heirs and charities is better advised to give appreciated stock and real estate to heirs and to make the charities beneficiaries of all or a portion of retirement funds. The heirs will get a stepped-up basis in the stock and real estate and thus be taxed only on post-death gain if and when they sell the assets. In contrast, they would owe income tax on every dollar of retirement funds they receive, in the year they receive them, unless they derive from a Roth IRA or a designated Roth 401(k) or 403(b) account, or from a plan to which after-tax contributions were made. Following are ways to design end-of-life gifts of retirement funds, assuming that any Roth funds would be paid to heirs and charitable gifts would be made with funds from taxable retirement accounts.

A. Name a Charity as Beneficiary of All or a Portion of an IRA or other Retirement Plan

It could be 10 percent, 25 percent, 50 percent, or even the entire amount if there are no heirs. Following death, that portion of left-over retirement funds would be paid to the charity in a lump sum, totally tax-free. The balance could be paid to other beneficiaries according to whatever schedule they elect, and the charitable gift will not affect that distribution schedule. If family circumstances change, the donor can alter the percentages by completing a new beneficiary designation form.

Example: Alvin, a widower, rolled his late wife's IRA into his own. He would like to leave a charity approximately $500,000, with the balance of his estate going to his two children. His children both are in the 35% federal income tax bracket. His total estate is approximately $15,000,000 and consists of the $500,000 in his IRA, appreciated securities worth $12,000,000, cash investments of $500,000, and a home and personal property worth $2,000,000. What asset should be used for his charitable gift?

Option 1 – Give $500,000 from his general estate assets to charity and the IRA to his children.

Estate tax savings	$200,000 *
Income tax savings	+ $0
Total tax savings	$200,000
Net cost of gift	$300,000

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Option 2 – Give the IRA to the charity and other assets to his children.

Estate tax savings	$200,000	*
Estimated income tax savings (Assuming 35% combined tax rate and taking into consideration that federal estate tax attributable to the IRA is deductible from income tax)	+ $105,000	
Total tax savings	$305,000	
Net cost of gift	$195,000	

* No allowance is made for administrative expenses that would reduce the estate tax. Also, only federal income tax is considered. The tax savings could be different if federal income and estate tax rates change, and if the federal estate tax exemption should change from the $12,060,000 allowed in 2022.

General rule: Upon death, it is better to make charitable gifts with IRAs and qualified retirement funds (or with other "income in respect of a decedent" ("IRD"), such as savings bonds and commercial annuity contracts) and give cash, securities, and real estate to heirs. This is true even for donors whose estates are not large enough to be subject to federal estate tax because the benefit is in avoiding income tax on the retirement funds.

Caution: The donor must make the charity a direct beneficiary of the retirement fund. If the estate is the beneficiary, and the will provides for a certain sum to be paid to the charity, the distribution will be taxed on the estate's income tax return, and there will be no offsetting deduction unless the will specifically states that charitable bequests shall be made, to the extent possible, with the retirement funds or with IRD assets, which includes taxable retirement plan distributions. (See below for a further explanation of IRD).

B. Establish a Charitable Remainder Trust for Survivors with Remaining Retirement Fund Assets

An individual may be willing for a charity to be the ultimate beneficiary of her remaining retirement funds, but in the meantime wants to provide for family members. She could accomplish both goals by making a charitable remainder trust the beneficiary of a retirement plan. The trust could make payments to a surviving spouse for life or to surviving children for life or a term of years. If the spouse is the only income beneficiary, the entire amount distributed to the CRT is deductible for federal estate tax purposes. The remainder interest qualifies for the estate tax charitable deduction and the income interest for the estate tax marital deduction. If someone other than the spouse is an income beneficiary, the value of the income interest will be subject to estate tax. Whether tax is owed will depend on the size of the estate and the amount of other taxable gifts.

A major benefit of this arrangement is that no income tax will be payable on the retirement fund assets when they are paid to the charitable remainder trust because the trust is tax-

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exempt. (Multiple PLRs support this conclusion. See PLRs 199901023, 9237020, 9253038, 9723038, 9634019.) Unless the distribution that establishes the trust comes from a Roth IRA or designated Roth 401(k) or 403(b) account, payments to the income beneficiary will be taxable entirely as ordinary income, at least until total payments exceed the funding amount. Payments would also have been fully taxable this way had the donor made the individuals the beneficiaries of the retirement plan.

It is important to make the trust the beneficiary of the retirement plan rather than to name the estate as beneficiary and provide in the will for the creation of a testamentary charitable remainder trust. The latter course results in unnecessary taxation.

The trust could be a unitrust established during the life of the donor and minimally funded; it could begin as a living trust that automatically converts to a charitable remainder trust at the death of the trustor; it could be unfunded until the death of the donor if this procedure is acceptable in the jurisdiction where the trust is sited; or the will might provide for its creation at the moment of death. The donor's advisors can recommend the best procedure whereby the trust can be named as beneficiary.

Example: John creates a charitable remainder unitrust and names it as beneficiary of 50 percent of his IRA. The trust will pay to his wife Marjorie six percent of trust assets, as revalued annually, for the duration of her life. Then the trust will terminate, and the remainder will be distributed to a charity. Following John's death, approximately $500,000 from his IRA will be paid to the trust. Marjorie will receive about $30,000 the first full year of the trust, an amount that will increase over the years if the trust assets grow in value. When the IRA funds are distributed to the trust, they are subject neither to estate tax nor to income tax. The trust payments will be taxed as ordinary income to Marjorie. The arrangement enables John to provide for Marjorie, if he predeceases her, and it gives both of them the satisfaction of assuring a future gift to a charity.

Variation: If John and Marjorie have children, and Marjorie's income needs are otherwise met, John might make the children beneficiaries of the trust, perhaps for a term of 20 years. A portion of the IRA (the value of the children's income interest) would be subject to estate tax, but none of the IRA assets would be subject to income tax when paid to the trust. The children would be taxed on the income they receive from the trust.

This arrangement, too, assures a future gift to a favorite charity while providing for the children. It also preserves assets for the family and for charitable purposes that otherwise would have been consumed by taxation.

Issues Regarding Funding the Trust: Under Reg. Sec. 1.664-1(a)(5), a testamentary charitable remainder trust is deemed created at the death of the donor. However, the actual distributions for funding the trust are made following death, and there may, in fact, be several distributions occurring over weeks, or even months, before the trust is fully funded. For example, the trust might be designated as beneficiary of an IRA and of a certain percentage of the donor's living trust. The IRA distribution is made two months after the donor's death, and there are two distributions from the living trust, the larger one six months after death, and a smaller clean-up distribution seven months after death.

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The general rule is that additions cannot be made to a charitable remainder annuity trust once it is funded. However, Reg. Sec. 1.664-2(b) provides that all property passing to the trust by reason of the death of the donor shall be considered as one contribution. Thus, in the example above the later distributions from the living trust would not be considered impermissible additions to the trust. The payment to the income beneficiary would be the total amount distributed to the trust multiplied by the payout percentage calculated as if the full amount had been received on the date of death. (Treasury Regulations 1.664-1(a)(5)(i) and 1.664-1(a)(5)(ii) provide detailed instructions on how to calculate the amount by which a testamentary charitable remainder trust has underpaid or overpaid its income beneficiaries during the period between the donor's death and the full funding of the trust, if permitted by applicable local law or authorized by the governing instrument.)

C. Establish a Gift Annuity with All or a Portion of Remaining Retirement Fund Assets

This gift arrangement was addressed in PLR 200230018. The most important conclusion in the ruling was that the proceeds payable to the charitable beneficiary will be IRD to the charity under IRC Sec. 691(a)(1)(B) and will not be IRD to the taxpayer’s estate. Since the charity is tax-exempt, none of the IRA proceeds will be taxed at the time the annuity is funded. Though the IRS did not rule directly on the matter, it is presumed that payments would be taxable entirely as ordinary income, unless some portion of the IRA was funded with after-tax contributions. Distributions from an IRA left to an heir would likewise have been fully taxable.

A testamentary gift annuity funded with remaining IRA assets could be appealing when:

- the donor wants to provide fixed, guaranteed payments to a surviving friend or relative and make a charitable gift, or
- the donor wants to provide for a survivor and make a charitable gift, but the contribution would be too small for a charitable remainder trust to be practical, or
- The donor wants to assure payments to a surviving spouse for as long as he or she lives without concern that they might cease because of market losses or ever-escalating required minimum distributions.

Example: Mona executes a gift annuity agreement during her life. The agreement provides that, if her sister survives her, the charity will pay an annual annuity to her sister, the amount of which shall be the value of the distribution to the charity, as beneficiary of her IRA, multiplied by the annuity rate then paid by the charity to an annuitant her sister’s age at the time of Mona’s death. Mona also names the charity as beneficiary of her IRA. She dies when her sister is 78. The amount distributed from her IRA to the charity is $300,000. The charity pays her sister $18,000 per year (6.0% x $300,000). Included in Mona’s taxable estate is the present value of her sister’s annuity. The sister’s payments are taxable entirely as ordinary income since the IRA distributions have a zero basis.

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Changes in SECURE Act May Make Funding a CRT or CGA More Attractive
A common strategy with inherited IRAs is to keep assets in the account as long as possible in order to postpone income tax on them for as long as possible.

The SECURE Act that became law in 2020 requires non-spouse beneficiaries who are more than 10 years younger than the person from whom they inherit an IRA or other qualified plan to withdraw all account funds within 10 years of the account owner's death. Think children and grandchildren, for example.

Prior to the SECURE Act, recipients of inherited IRAs, including children and others much younger than the deceased account owner, could stretch their withdrawals over their life expectancy. Someone who received an inherited IRA while in their 40s, for example, could stretch their withdrawals over the rest of their lives, which could be 40 years or more. Under the new rules, a testamentary gift annuity or charitable remainder trust funded with retirement plan assets might be attractive for some donors who want to provide an income stream to children or other younger heirs for life and make a significant charitable gift through their estate.

It is worth emphasizing that, unlike with an inherited IRA, the beneficiary of a testamentary CRT or CGA has no access to the account principal and has no control over the amount distributed each year. Funding one of these plans instead of an inherited IRA makes sense if the owner of the retirement plan wants to make a charitable gift and limit how much of these funds her beneficiaries receive each year. It is possible that if the beneficiaries live long enough that they will receive more after-tax funds from a CRT or CGA than they would have from an inherited IRA, but that is hardly a guarantee. They could also die earlier than expected and receive far less from a CRT or CGA than they would have from an inherited IRA.

D. Back up a Pledge with a Provision to Pay with Retirement Funds Any Amount Remaining at Death

Example: Rachel pledged $1,000,000 to her charity's capital campaign, and she wanted to assure that the pledge would be fulfilled if she died with an outstanding balance. She and the charity executed a pledge agreement which contained this language:

> "In consideration of my interest in benefiting XYZ Charity (the "Charity"), and with the intent of making a major commitment to the Charity in response to the comprehensive campaign conducted during the period 2015-2020, and specifically for the ______ Center, which, in consideration of this gift, shall be named the "Rachel G ______ Center," I, Rachel G ______ pledge and promise that my estate shall be obligated to pay the charity, subsequent to my death, the sum of $1,000,000, less any amounts distributed to the Charity from my duly probated Will, Living Trust, or Individual Retirement Account that are designated to be in fulfillment of this pledge."

She could then make the charity a beneficiary of her IRA to the extent of the unpaid balance, thereby fulfilling her pledge obligation in the most tax-efficient manner.

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Whether the pledge is enforceable depends on whether it satisfies the conditions of enforceability under applicable state law.

E. Gifts of Other IRD Assets at the End of Life

IRD refers to taxable income to which a deceased person was entitled. It includes unpaid wages, interest and dividends unpaid at death, retirement funds (other than a Roth IRA or funds resulting from after-tax contributions), accrued interest on U.S. savings bonds, and the value of an annuity in excess of the investment in the contract. The IRD is taxable to the beneficiary, which could be the estate of the decedent or named individuals. IRD assets are not eligible for a step-up in basis. The entire IRD is taxable as ordinary income.

The end-of-life giving methods proposed for retirement funds would also apply to certain of these IRD assets. For example, suppose that many years ago Gloria purchased a commercial deferred variable annuity for $100,000, she has made no withdrawals from it, and the cash value of the annuity is now $210,000. If she names her brother as the beneficiary, the $110,000 of accrued gain will be taxed to him as ordinary income as he receives distributions from the annuity.

She could name a charity as beneficiary of the annuity in which case there would be no tax payable because the charity is tax-exempt. If she wants both to make a charitable gift and to provide income to her brother, she could name the charity as beneficiary of the deferred variable annuity and execute a gift annuity agreement stipulating that her brother is to receive an annuity equal to the amount received by the charity from the insurance company multiplied by the annuity rate then paid by the charity to a person her brother's age. Unlike a gift annuity funded with funds from a regular IRA, 401(k), or other qualified plan, some portion of the payments would be tax-free because her investment in the contract ($100,000) is not subject to income tax.

The results would be similar if U.S. Savings bonds were used to fund a gift annuity for a survivor. Again, a portion of the payments would be tax-free because of her cost basis in the bond. The charity would not be taxed on the accrued interest in the bonds because of its tax-exempt status.

Commercial deferred variable annuities and savings bonds constitute part of the available retirement savings for some people, and if they do not need income from them, they pass them to beneficiaries. These assets, like IRAs and qualified retirement funds, are excellent candidates for end-of life gifts

F. Collecting Post-death Retirement Plan Distributions

While the beneficiary designation is a quick, easy way to leave a testamentary gift of retirement plan assets, charity's face significant challenges in collecting these gifts. Primarily, these gifts are from IRAs but other qualified plan distributions face similar problems. Some IRA custodians delay paying death claims based on the company's internal policies for what procedures and paperwork are necessary to pay an IRA death claim. These procedures are often invasive, cumbersome, and time consuming. There are some common problems faced in collecting IRA accounts and some potential solutions.

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The Problem with Collecting IRA and Other Retirement Account Proceeds
A beneficiary designation, whether on an insurance policy, a bank account, or an IRA should operate as a payable on death account. Upon proof of death, the claim should be paid. Instead, many retirement plan administrators insist that charitable and non-charitable beneficiaries are required to set up a second account – called an inherited IRA. The account administrator transfers the donor's balance from the original IRA into the inherited IRA. The beneficiary can then ask the account administrator to liquidate the account to get the money. Each retirement plan administrator has varying procedures and requirements to access these accounts at the death of the plan owner.

The plan administrator requires extensive disclosure from the representatives of the charity to open an inherited IRA. While the charity is the owner of the inherited IRA, in the account opening process the plan administrator may require personal information of individuals employed by the charity. These forms require the date of birth, home address, personal phone number, Social Security Number, copy of a driver's license and personal financial information. Of course, this ignores the fact that the charity owns the inherited IRA, not the individuals completing the account opening paperwork.

Possible Solutions
Here are three options for navigating how to receive post-death distributions from retirement plans. The same advice applies to testamentary distributions from IRAs and other qualified retirement plans, alike.

The first approach is to take the path of least resistance. This means the charity provides the personal, sensitive information as if the signer were opening the account. Why would a charity do that? To get the money!

The second approach is to open an inherited IRA as a charitable beneficiary. This means the charity enters its name, tax identification number, and the address and contact information for the person administering the distribution for your organization. Mark N/A for each field that is irrelevant or inapplicable. Have an officer of the charity sign the application and include a certificate of the Board Secretary showing that the signer has authority to engage in financial transactions on the part of the charity.

The third approach is to stand your ground. Don't accede to the administrator's request for opening an inherited IRA and request a distribution of the IRA proceeds. If you choose this approach, consult the RIFT (Release IRA Funds Timely) Project (https://charitablegiftplanners.org/ira-distribution-resource-center.) The RIFT Project is the brainchild of Johni Hays, JD, Senior Vice President at Thompson & Associates.

The RIFT database is accessible to all nonprofits on a complimentary basis on the National Association of Charitable Gift Planner's website to help expedite their claims. The database includes the names of various IRA custodians and their requirements and contact information. It also includes sample letters you can use to communicate with plan administrators about why it is not necessary to open an inherited IRA to receive a charitable distribution upon a donor's death. Information in the RIFT database is updated regularly to reflect changes in the policies and procedures of IRA custodians.

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III. Concluding Word

Gift planners sometimes think that their ability to secure gifts of retirement fund assets is limited to qualified charitable distributions. While QCDs rightfully receive a lot of attention in the marketing of planned gifts and are increasingly popular with donors, there are many opportunities for gifts of retirement assets under current law. Gift planners should keep them all in mind when working with donors.

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APPENDIX

I. Types of Retirement Plans

A. Classification of Retirement Plans According to How Benefits are Determined

1. Defined-benefit plan

   A defined-benefit plan guarantees a certain payout at retirement according to a formula, which takes into consideration the employee's salary and years of employment. The employer must invest a sufficient amount, determined by an actuary, to meet the payment obligations, but because returns on investments and future benefits to be paid cannot precisely be known in advance, the assets in the fund are sometimes insufficient to meet the benefits. When that is the case, the plan is said to be underfunded. Many defined benefit plans are guaranteed by the Pension Benefit Guaranty Corporation. In the past, it was common practice for companies to offer defined-benefit plans to employees, but in recent years the trend has been towards defined-contribution plans.

2. Defined-contribution plan

   In a defined-contribution plan, contributions are made to individual participant accounts, and the retirement payments to each participant depend on the amount contributed to his or her account and the returns on the investment of the contributions. Depending on the type of defined-contribution plan, contributions may be made either by the company that sponsors the plan, the participant, or both. In many instances, the participant can choose the types of investments for the funds in his or her account. IRAs, 401(k) plans, and 403(b) plans are all defined-contribution plans.

B. Defined-Contribution Plans

1. Tax benefits

   All defined-contribution plans offer these benefits.

   - Employer contributions are deductible on the participant's federal income tax return (and generally on state income tax returns as well) to the extent they do not exceed contribution limits.
   - Employee contributions are likewise deductible on income tax returns, again to the extent they do not exceed contribution limits.
   - Earnings on the invested contributions are not currently taxed.

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In summary, amounts contributed and earnings aren't subject to income tax until they are received.

2. 401(k) plan

A 401(k) plan must be sponsored by an employer, which is typically a for-profit corporation. The employee can elect to have a portion of his or her wages paid into his or her 401(k) account, and, as noted above, these contributions are pre-tax dollars. The plan will spell out the extent of employer matching contributions. The employer's contribution might be a percentage of net profits each year (profit sharing plan), or a percentage of each employee's annual salary (money purchase plan). In both cases, the contributions would be allocated to employee accounts.

The employee contributions are immediately vested. The plan could provide that employer contribution are likewise immediately vested, or it might have a vesting schedule whereby the employee's right to employer contributions becomes non-forfeitable after the elapse of a certain period of time. Employer contributions must meet non-discrimination requirements.

Most 401(k) plans are participant-directed, meaning that the employee can select from a number of investment options. Some plans also offer the option to purchase company stock.

Beginning in 2006, a 401(k) plan could be designed to allow employees either to contribute on a pre-tax basis with all distributions fully taxable, or to allocate some or all of their contributions to a separate Roth account. Contributions to this account would be after-tax, but distributions would be tax-free. A 401(k) must have the proper amendments to make a Roth account possible. (See below for a description of Roth accounts.)

Contributions limits to a 401(k) plan for 2022 are:

- Elective contributions by the employee $20,500
- Combined limit for employer and employee contributions $61,000*

* Extra catch-up contributions of up to $6,500 are allowed for individuals 50 and older.

3. 403(b) plan

A 403(b) plan can be established by a:

- Public school, college or university, or
- A charitable entity tax-exempt under IRC Sec. 501(c)(3)

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403(b) plans offer the same tax advantages as a 401(k) plan, for amounts contributed and income earned aren't subject to income tax until received.

As with 401(k) plans, employers may make matching contributions. Often, they function like a money-purchase plan inasmuch as the employer contributes a percentage of the participating employee's annual compensation. In many instances, that percentage depends on the age of the employee.

Participants in a 403(b) plan may choose among annuity and variable annuity accounts with insurance companies and a custodial account generally made up of mutual funds. An example of the latter is TIAA/CREF where the participant can allocate assets in his or her account among various equity and fixed income investments. If an individual chooses to invest in a variable annuity, there will likely be a surrender charge if he or she wants to transfer the money elsewhere.

Similar to the 401(k), beginning in 2006, a participant can contribute after-tax dollars to a Roth 403(b). It is also possible to allocate a portion of the contribution to a Roth 403(b) and a portion to a regular 403(b), subject to the contribution limitations.

As with a 401(k), employee contributions are immediately vested in a 403(b) plan. In most instances, employer contributions vest automatically as well. Monies can, and often do, stay in the plan after termination of employment.

Contribution limits to a 403(b) plan for 2015 are:

- Elective contributions by the employee $20,500
- Combined limit for employer plus employee contributions $61,000*

* Extra catch-up contributions of up to $6,500 are allowed for individuals 50 and older.

4. Traditional IRA

Unlike 401(k) and 403(b) plans, which require employer involvement, a qualifying individual can establish a traditional IRA. Cash or cash equivalents would be transferred to the custodian, and the IRA owner may choose the investments (self-directed IRA).

The tax benefits are the same as for a 401(k) and 403(b) plan. The amount contributed is deductible, provided it is within the allowable limit, earnings are not taxed, and distributions are fully taxed, except for any portion that is derived from after-tax contributions.

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The contribution limit in 2022 is the lesser of 100 percent of earned income or $6,000 ($7,000 for individuals age 50 or older making catch-up contributions), if the individual is not an active participant in an employer-maintained retirement plan. If the individual is a participant, the maximum that can be contributed to a deductible IRA is phased out once income reaches a certain level.

5. Roth IRA

Contributions are not deductible; they are made with after-tax assets. Earnings on Roth IRA assets are not taxed, and withdrawals are usually tax-free. At the death of the owner, distributions to individual beneficiaries are not subject to income tax provided the account has been in existence for at least five years. In the case of a contribution to a Roth IRA, the five-year holding period begins on January 1st of the tax year for which a contribution was made. In the case of a conversion from a Traditional IRA to a Roth IRA, the holding period begins on January 1st of the year in which the conversion occurred.

The contribution limit in 2022 is the same as for a traditional IRA. If a person contributes to both a traditional and Roth IRA, the combined contribution to both cannot exceed $6,000 ($7,000 in the case of individuals age 50 and older making catch-up contributions). The maximum yearly contribution that can be made to a Roth IRA is phased out for individuals whose income exceeds a certain level (between $129,000 and $144,000 for single filers, and between $204,000 and $214,000 for joint filers). These are 2022 levels. The ability to contribute to a Roth IRA does not depend on whether the individual participates in an employer retirement plan.

6. SEP IRA

SEP is an acronym for "Simplified Employee Pension."

The SEP IRA functions as a low-cost pension plan for small businesses. It is an employer-contribution plan only; employees cannot make additional optional contributions. The money contributed by the employer goes into individual employee IRA accounts, and the individual owns all of the assets from day one.

Employees may exclude from taxable income the SEP contribution. As with a traditional IRA, the earnings are not currently taxed, and distributions are taxed only when received.

A SEP IRA may be established by a self-employed individual who has no employees, or by a business owner with employees. In the latter case, eligibility must be extended to all employees who are at least age 21, have worked for the employer three of the last five years, and received at least $500 of compensation during the tax year. Eligibility can be less but not more strict.

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The contribution limit for an incorporated business in 2022 is 25 percent of net adjusted annual self-employment income as long as contributions to not exceed the maximum allowable ($61,000 in 2022).

7. Simple IRA

"Simple" is an acronym for "Savings Incentive Match Plan for Employees."

A Simple IRA may be established by firms with no more than 100 employees. The employees may choose to make salary reduction contributions. The plan requires a minimum contribution by the employer, which may either match employee contributions dollar-for-dollar up to three percent of compensation or a non-elective flat two percent of compensation for every employee who earns at least $5,000 during the year. All contributions are made directly to an IRA (either an account or an annuity) for each employee. The employee is the owner of the account from the beginning.

The contribution limit for an employee in 2022 is $14,000 (not counting a catch-up contribution of $3,000 for those over age 50). If a person participates in any other employer plans during the year, the total salary-reduction contributions allowed for all plans combined is $20,500 in 2022.

The tax benefits are the same as those for a SEP IRA.

C. Keogh Plan

A Keogh plan is designed for a self-employed professional or the owner of a small, unincorporated business.

The Keogh plan can be either a defined-benefit or defined-contribution plan. If it is the former, the business owner would contribute each year whatever is required to pay the formula amount upon retirement. If it is the latter, the contribution could either be a percentage of profit or a percentage of compensation, and the retirement benefits would depend on the total contributions and the earnings on them. Older business owners often opt for a defined-benefit plan because, with fewer years to retirement, a larger percentage of tax-deductible contributions can be allocated to themselves.

The tax benefits of a Keogh plan are comparable to a traditional IRA: deductible contributions, deferred taxation of earnings, and taxable distributions upon receipt.

If the business owner has employees, eligibility requirements can be set, but they cannot discriminate in favor of highly-compensated employees. Vesting could occur over a five-year period. A Keogh plan is more complex to establish and administer than the SEP or Simple IRA.

The contribution limit in 2022 for a defined-contribution plan is the lesser of 25 percent of net Keogh earnings or $61,000. The limit can be significantly higher for

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defined benefit plans. In fact, the solo-defined-benefit plan offers the largest tax-deductible retirement benefit.

D. Rabbi Trust

The Rabbi Trust is a non-qualified deferred compensation plan, so named because it was first set up for the benefit of a rabbi. A portion of the current income of an employee is deferred and not taxable. The assets of the trust are reachable by the employee's creditors, so there is a risk of forfeiture. However, the money in the trust cannot be used by the employer. Unless the employer becomes insolvent, the money is protected.

Non-qualified deferred compensation plans are explained in IRC Sec. 457. These plans can be for highly-compensated employees. A disadvantage is that the assets on non-governmental 457 plans cannot be rolled into an IRA.

E. IRA Rollovers

1. Assets in a 401(k) plan, a 403(b) plan, or a Keogh plan can be rolled over to a traditional IRA. In the case of a 401(k) plan, this frequently happens when an employee changes jobs and is entitled to a distribution from the employer's 401(k) plan. Money is more likely to be retained in a 403(b) plan when the employee ceases to work for the organization, but a rollover to an IRA is possible. Sometimes individuals have millions of dollars in their IRAs. This is usually the result of rollovers from qualified plans where substantial assets accumulated.

2. Funds can be transferred from a Traditional IRA to another without tax consequences.

3. Rollovers can be direct or indirect. If "direct," assets are transferred from the employer plan to the employee's IRA (or from one IRA to another). If "indirect," the employee receives a distribution check and has 60 days to transfer all or a portion of the amount received to an IRA. A direct transfer avoids any IRS mandatory withholding rules.

F. Roth IRA Conversion

Beginning in January of 2010, the income ceiling for converting a traditional IRA to a Roth IRA was lifted. In the past, persons whose income exceeded $100,000 were precluded from a conversion. A person might want to convert because distributions from a Roth IRA, whether made to the owner or heirs, are not taxable and because there are no minimum distributions. A person might hesitate to convert because the amount transferred from a traditional IRA to a Roth IRA is fully taxable in the year of the conversion.

Usually, a person, upon leaving an employer, and who had a 401(k) through the employer will convert the 401(k) to a regular IRA, and subsequently the funds in that IRA could be transferred to a Roth IRA. Subject to certain conditions, a direct

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conversion of the 401(k) to a Roth IRA may be possible without the intermediate step.

II. Distribution Rules

The rules for distribution to the participant from retirement plans can be characterized as the "not-too-soon rules" and the "not-too-late rules." There are also rules pertaining to distributions to the participant's heirs.

A. Not-Too-Soon Rules

Generally, distributions prior to the participant's attaining age 59 ½ incur a 10 percent penalty tax. The distributions would be taxed at the participant's marginal rate, and in addition there would be a penalty tax equal to 10 percent of the distributed amount. In certain instances, such as the participant's disability or to cover medical expenses in excess of 7.5 percent of adjusted gross income, the 10 percent penalty will not be imposed. Also, the penalty will not apply in the case of an IRA where the distribution is for first-time home buyer expenses (up to $10,000) or for qualified educational expenses for oneself or family members.

B. Not-Too-Late Rules

To avoid penalties, the participant must take a minimum distribution each year beginning in the year when he or she reaches age 72. It is possible to delay the first distribution until April 1 of the following year. However, the participant would have to take an additional distribution by December 31 of the same year. The penalty tax for under-distributions is substantial: 50% of the amount by which actual distributions fall short of the minimum distribution.

The minimum distribution that must be taken each year is calculated by using a factor from the following IRS Uniform Distribution Table:

Uniform Lifetime Distribution Table for 2022

Age	Minimal Withdrawal	Age	Minimal Withdrawal	Age	Minimal Withdrawal
72	3.65%	81	5.15%	90	8.20%
73	3.77%	82	5.41%	91	8.70%
74	3.92%	83	5.65%	92	9.26%
75	4.07%	84	5.95%	93	9.90%
76	4.22%	85	6.25%	94	10.53%
77	4.37%	86	6.58%	95	11.24%
78	4.55%	87	6.94%	96	11.90%
79	4.74%	88	7.30%	97	12.82%
80	4.95%	89	7.75%	98	13.70%
				99	14.71%

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The minimum amount that must be withdrawn in any given year is the account balance as of December 31 of the immediately-preceding year multiplied by the percentage corresponding to the age the participant will be at end the of the year. Provided the participant is over age 59½, he or she can withdraw more than the minimum amount, and, in fact, many do so. The participant might also elect to annuitize the accumulations. The table simply shows the minimum amount that must be withdrawn each year when a participant is taking annual distributions.

If the participant has a spouse more than 10 years younger than the participant, then the above table does not apply. In that case the minimum distributions would be based on joint life expectancy, and an even smaller percentage would have to be withdrawn each year.

A person who continues to work after age 72 and participates in certain employee plans may be exempt from the minimum distribution rules. However, the RMD rules would still apply to any IRAs the individual owns and to retirement accumulations from a previous employer.

A Roth IRA has minimum distribution requirements for heirs but not for the account owner.

C. Distribution to Heirs

Distributions will depend on the specific rules of the retirement plan, whether it had been annuitized, and whether it was a defined benefit plan. Assuming the retirement funds have been rolled into an IRA, there would be these options after the death of the account owner.

- If a spouse is named as a beneficiary, the funds allocated to the spouse can be retained in a spousal IRA with distributions based on the spouse's life expectancy.

- If the account owner dies before he or she reached age 72, and the spouse does not treat the IRA as his or her own, the spouse must start taking distributions no later than the year the account owner would have reached age 72.

- If the account owner dies after age 72 and the surviving spouse does not treat the IRA as his or her own, the spouse must take payments each year based either on his or her single life expectancy or on the account owner's remaining fixed life expectancy.

- If the beneficiary is not a spouse and is 10 years or less younger than the account owner, funds must withdraw an increasing fraction of the account balance each year based on the beneficiary's life expectancy at the time the account owner died.

- If the beneficiary is not a spouse and is more than 10 years older than the account owner, all funds must be withdrawn within 10 years.

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While the beneficiary could take a lump sum, stretching out the payments probably results in the beneficiary being taxed at a lower rate.

III. Taxation of Distributions

Except for Roth IRAs and designated Roth 401(k) and 403(b) accounts, distributions from retirement plans are subject to federal income tax and, in most instances, also to state income tax. The tax is paid by the recipient – by the account holder while he or she is receiving payments, and by his or her beneficiaries following death. A large, lump-sum distribution can push the recipient into a higher tax bracket, thereby causing the distribution to be taxed at a higher rate. That is one reason to arrange for payments to be made to beneficiaries over their lifetimes, or at least for a period of years, rather than in a lump sum. An IRA with such an extended distribution period is called a "stretch IRA."

In addition to income tax, the assets of retirement plans (including Roth IRAs and designated Roth 401(k) and 403(b) accounts) may be subject to estate tax. The fair market value of these assets will be included in the account owner's estate and, along with all other estate assets, will be taxed if the total estate exceeds the amount that can be exempted. In the event the account owner's spouse is the only beneficiary, the retirement funds will qualify for the estate tax marital deduction and, consequently, will not be taxed on the estate tax return. However, any funds remaining in the account at the spouse's death will be includible in his or her estate, and may be subject to estate tax at that point. It should be noted that beneficiaries are entitled to an income tax deduction for the amount of the net federal estate tax paid on the funds they receive.

Even so, the combination of income and estate taxes could total 60 - 70 percent of retirement plan accumulations, depending on applicable tax rates. If a person names grandchildren as beneficiaries, the generation-skipping tax also could apply, further increasing the percentage consumed by taxes. Although reductions in income and estate tax rates have provided some relief, IRAs and qualified retirement funds are likely to continue to be the most heavily-taxed assets that a person can leave to heirs. (Under current law, appreciated securities and real estate get a stepped-up basis at death, meaning that heirs are not taxed on pre-death gain. There is no such step-up for IRAs and other retirement funds. They are fully taxable to beneficiaries.)

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