

Future Gifts of Retirement Plan Assets

What are they?

Retirement plan assets include your IRA, 401(k) and other tax-deferred retirement plans. Because many forms of retirement plan assets generate “income in respect of a decedent” at your death (income that would have been taxable to you if you had lived), that income is still taxable, and the plan’s assets were also taxable in your estate. As a result of this potential double taxation, perhaps 65% or more of this value can be eroded. However, you can help preserve the funds by leaving these assets to charity and leaving other, less heavily taxed, assets to your heirs.

What are the benefits?

Tax savings

If you name the Rhode Island Foundation as the beneficiary of your retirement plan, your unused balance will be distributed upon your death to the Foundation free of both estate and income taxes. If you have children or other heirs, you can leave them stock, real estate, or other estate assets that will not be taxable as income to them.

If you are married, you could leave your retirement plan assets to your spouse first and then to charity. This is because the marital deduction assures that no estate tax applies to a transfer to a spouse.

Another strategy utilizes a charitable remainder trust and lets you turn your retirement savings into a lifetime source of income for loved ones before giving the trust principal to the Rhode Island Foundation. This too can yield significant tax savings.

Special considerations for Roth IRA

The Roth IRA has tax consequences quite different from traditional IRAs. Unlike a traditional IRA, which incurs both an estate tax and an income tax when the account owner dies, the income tax for a Roth IRA has been prepaid. Only estate tax is paid when the Roth account owner dies. From a tax perspective, this makes the Roth IRA a less attractive gift to charity than a traditional IRA.

Common retirement plans appropriate for “gifting”

- 401(k) plans, which allow an employee to reduce taxable compensation
- 403(b) plans for employees of nonprofit organizations
- Individual Retirement Accounts

To learn more about gifts of retirement plan assets, contact our Development department at (401) 274-4564.

Note: The Rhode Island Foundation does not provide legal or tax advice. An attorney or other professional advisor should be consulted.