TAXES & YOUR IRA

Tulsa Community Foundation

Your Values. Your Legacy. Your Community.

TULSA COMMUNITY FOUNDATION

Tulsa Community Foundation (TCF) was founded in late 1998 and exists to make charitable giving more meaningful and efficient. Hundreds of individuals and corporations make all their contributions to charities through TCF's services. TCF's donors and the charitable nature of Tulsans have made TCF the largest community foundation in America.

Donors give cash or appreciated assets to TCF and create individual funds in their names. Donors receive an immediate tax deduction and one receipt from TCF, then advise when those assets are given to charities they choose. TCF reviews each recommendation and approved grants are made to charities, in the name of the donor's fund, in Oklahoma, America and internationally. TCF handles all accounting, reporting, investing and grantmaking.

TCF helps educate donors on the community's highest needs, creates focused charitable giving strategies for donors, and works to involve children and other family members in multi-generational giving. TCF hosts programs that inform donors across the community about planned giving opportunities – using wealth, rather than current assets, to fund charitable activities. These programs allow donors to maximize what they leave to their families and to charity.

Please consider how you can use TCF's services to better accomplish your charitable objectives and make a more lasting impact on our community.

TAXES ON YOUR IRA

Have you ever considered the tax consequences associated with your retirement accounts? The interesting thing is that we are constantly encouraged to save for retirement. In fact, Uncle Sam encourages this principle by allowing money to grow income tax-free in qualified retirement plans such as IRAs (Individual Retirement Accounts). Even though these types of accounts receive tax-free growth, they do produce taxes once your money is withdrawn. The real question is to what extent will your IRA be taxed?

COLLECTING THE TAX

How is My IRA Taxed When I am Living?

Too Early: While you are living, if you take money from your IRA, the amount you withdraw will be taxed to you as ordinary income. However, if you take money from your IRA before you are 59 ½ years old, you will not only pay the tax but also a 10% penalty.

Too Late: If you do not begin taking money from your IRA by the time you are 70 ½ years, you pay a 50% penalty.

Too Little: If you miscalculate your required minimum distribution, then you pay a 50% penalty.

Too Much: This tax was repealed several years ago and you paid a 15% penalty for having too much in your retirement account. Although Uncle Sam took this penalty away, "what Uncle Sam giveth, he may taketh away."

What Happens When I Pass Away?

To add insult to injury, when you pass away and your retirement accounts transfer to a beneficiary, taxes on these accounts do not go away. If the beneficiary is your spouse, you can transfer the IRA with no tax consequences.


YOUR TIME
YOUR CHOICE

However, if the beneficiary is not your spouse, the beneficiary must pay income tax on the entire IRA. This type of tax is known as "Income in Respect of a Decedent." IRAs, 401(k)s, deferred compensation plans, and other qualified plans are subject to this tax. Unfortunately, depending upon the size of your retirement plan, this tax (along with estate taxes) could reduce the amount passing to your beneficiary by up to 75%.

There are several strategies that can eliminate all the taxes on your retirement accounts when transferring them to a beneficiary.

LIFETIME GIFTS OF IRAS

Generally, charitable gifts from IRA monies make poor gifts during your lifetime. By withdrawing money from your IRA, you must still pay the tax on the withdrawal. And although you will receive an income tax deduction for the gift, it will not be enough to fully cover the tax.

CHARITABLE GIFTS OF IRAS

Although lifetime gifts from IRAs are not recommended, gifts of IRAs to charitable organizations at death can be beneficial. If you plan on making gifts to charity in your estate plan, consider making them from your IRA instead of other assets. Your beneficiaries must pay tax on the IRA, but a "tax-exempt" charitable organization does not. By making your favorite charity a beneficiary of the IRA, you save your heirs tax dollars and support your charity.

CHARITABLE REMAINDER TRUSTS

Another solution to the IRA income tax problem is to use the IRA balance at your death (or your spouse's death) to fund a Charitable Remainder Trust. A Charitable Remainder Trust is a tax-exempt trust that does not pay income tax, but does pay your beneficiaries income for a term of years. After the term of years, the remaining balance of the trust is paid to your favorite charitable organization.

Tulsa Community Foundation

To learn more about how Tulsa Community Foundation can assist you to simplify, streamline and maximize your charitable giving, please contact:

Director of Donor Partnerships

7030 S. Yale Ave., Suite 600
Tulsa, OK 74136

918.494.8823

info@tulsacf.org

www.tulsacf.org