



PHILANTHROPIC SOLUTIONS: Qualified Plan/IRA Charitable Gift

The St. Croix Valley Foundation offers simple giving solutions that are tailored to your values, goals and personal financial circumstances. Your gifts can include bequests, cash, stock, real estate, life insurance, charitable remainder trust or charitable lead trusts with maximum tax advantages based on when and how you make your gifts. You have the flexibility to give to a wide variety of charities and the freedom to change charities should your interests change. You can also decide when and how to make your gifts in order to take full advantage of tax benefits.

A Lifetime Qualified Charitable Distribution (QCD) From Your Traditional IRA to your Charity of Choice

The Pension Protection Act of 2006 first allowed taxpayers age 70-1/2 or older to exclude from gross income otherwise taxable distributions (Qualified Charitable Distributions or “QCDs) from their IRA that were paid directly to a qualified charity. Currently, donor-advised funds (DAFs) are not recognized as “qualifying charities.” Taxpayers were able to exclude up to \$100,000 in both 2006 and 2007. The law was extended through 2009 by the Emergency Economic Stabilization Act of 2008, and has been extended again, through 2011, by the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the Tax Relief Act). Currently, we are uncertain if this law will be extended into 2012.

You must be 70 ½ or older in order to make QCDs. You direct your traditional IRA trustee to make a distribution directly from your IRA (other than SEP and Simple IRAs) to a qualified charity. The distribution must be one that would otherwise be taxable to you. You can exclude up to \$100,000 of QCDs from your gross income in 2011. If you file a joint return, your spouse can exclude an additional \$100,000 of QCDs in 2011. (Note: You don’t get to deduct QCDs as a charitable contribution on your Federal income tax return.) QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to receive from your IRA in 2011, just as if you had received an actual distribution from the plan. However, distributions that you actually receive from your IRA (including RMDs) that you subsequently transfer to a charity cannot qualify as QCDs.

As indicated above, a QCD must be an otherwise taxable distribution from your IRA. If you’ve made nondeductible contributions, then normally each distribution carries with it a pro-rata amount of taxable and nontaxable dollars. However, a special rule applies to QCDs – the pro-rata rule is ignored and your taxable dollars are treated as distributed first. (If you have multiple IRAs, they are aggregated when calculating the taxable and nontaxable portion of a distribution from any one IRA. RMDs are calculated separately for each IRA you own, but may be taken from any of your IRAs.)

- If you are 70 ½ and therefore, must take a required minimum distribution (RMD), you are eligible to gift to qualifying charities of your choice any or all of your RMD up to \$100,000 per donor in tax year 2011.

- While you will not receive an income tax deduction for gifting the qualifying charitable distribution (QCD), you will **not** include the QCD amount in your taxable income for the year you make the gift.
- The gift will thereby minimize your income tax and ultimately reduce your estate from potential Federal and state estate taxes.
- Currently, we are unsure if this law will be extended beyond tax year 2011.

To learn more and find out about your options, please contact your tax advisor and Jane Hetland Stevenson, president of SCVF via email at jstevenson@scvfoundation.org or by calling 715-386-9490.

A Testamentary Gift of Your Unused Traditional IRA to Your Donor-Advised Endowment Fund

A Donor-Advised Fund with the St. Croix Valley Foundation is an easy, flexible way for you to direct your charitable giving to a variety of charities over time, while receiving immediate tax benefits. You create the fund without having to name specific charities or causes, and then recommend grants to specific charities at times of your choosing.

- At death, your unused traditional IRA balance can pass with no probate costs to your donor-advised endowment fund.
- You will avoid both income and estate taxes (perhaps as high as 50% of the IRA total) on any amount gifted to your fund at death.
- Through proper planning, you may replace the gifted amount with life insurance to pass income and estate tax-free amounts to your family.
- Your family can participate in grant decisions. You can also name successor advisors, such as your children, who can direct the fund after you're gone.
- SCVF professionals can help you clarify your specific giving interests, discuss grantmaking strategies, recommend organizations that match your charitable interests and help monitor progress toward the philanthropic goals you set.
- You are kept informed of the impact of your fund's grants and giving opportunities through ongoing communications and reports.
- Grants can be made in your name, in honor or memory of a loved one, or anonymously if you choose.
- Grants can be made after your gift has been invested for a year.

Fund Minimum: \$10,000 Fees: 1.5% on funds up to \$500,000, 1% on amounts above \$500,000

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ONE DONOR'S STORY

The Johnson Family

Robert and Gwen Johnson set up a Donor-Advised Fund in 2000. Since that time, their three children have grown up, gone to college, and are now living in Paris, Minneapolis and Seattle. Robert was required to begin taking required minimum distributions from his traditional IRA when he turned 70 ½ several years ago. Gwen received Robert's IRA when he passed away with no income or estate tax consequences, but was required to continue taking required minimum distribution amounts based on her life expectancy as she was older than 70 ½ when her husband died. With the help of their financial planner, this couple had planned to give away any unused traditional IRA amount at Gwen's death to avoid significant income and estate tax consequences, perhaps as much as 50% of the traditional IRA total!

When Gwen died in 2008, the unused traditional IRA passed to the Johnson Family Donor Advised Endowment Fund free from any probate, income or estate taxes. In addition, the Johnson's had purchased, using funds from the required minimum distribution a second-to-die life insurance contract which provided income and estate tax-free dollars to their three kids when Gwen died, replacing the value of the gifted traditional IRA.

The parents' intent was for their children to make annual gifts to the Johnson Family Donor Advised Endowment Fund with a portion of the life insurance death benefit, as they were able, to continue the family's philanthropic vision. To help this process, the St. Croix Valley Foundation sends Johnson fund information to the three adult children telling them how much is available to grant to nonprofits.

It is important to the three siblings to honor their parents' philanthropy, and they use the fund as a means to continue to transmit their values to their own children. The entire family gathers at holidays and in the summer to discuss ideas and make grant recommendations. Their goal is to involve every family member and to teach the importance of philanthropy to their children and grandchildren. Each year the family members make additional gifts to the fund.

Since their parents have passed, they have made grants to over 20 charities around the country, and the fund has supported homeless centers, food shelf organizations and environmental organizations.

Advantages to the Johnson Family

- ❖ Full use of the Traditional IRA during Robert and Gwen's lifetimes
- ❖ Income and Estate Tax Avoidance on the Gifted Traditional IRA Amount
- ❖ Annual Income to Charities of Choice
- ❖ Learning Tool for the Family
- ❖ The St. Croix Valley Foundation will do all the work, including:
 - ◆ Creating your Customized Donor Advised Fund Document
 - ◆ Generate Tax Reporting Documents
 - ◆ Administer your Gifts

