Managing Retirement Assets for Charitable Legacy & Tax Efficiency

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Investors and philanthropists face a rapidly evolving tax landscape, both in Washington, D.C. and locally in Portland. Preserving family wealth while maximizing the tax efficiency of charitable giving takes a keen tactical vision and understanding of federal and local tax structures. We outline some strategies below that can help you maximize the benefits of your philanthropic giving — both to your long-term wealth and legacy plan and to your charitable beneficiaries.

Thoughtful Selection of IRA Beneficiaries

Some philanthropists are choosing to direct their IRA funds to a charitable organization at the end of their lives, given the highly tax-efficient nature of these gifts. If you name your non-spouse heirs as beneficiaries of your pre-tax IRAs, they have ten years to liquidate the account (with some exceptions) under the SECURE Act. If your heirs are in high tax brackets during that ten-year window, they could end up with a steep tax bill over time. If you own assets like real estate and brokerage accounts, these are often better assets to pass to your heirs as they are eligible for a step-up in tax basis at your death. As IRA beneficiaries, your heirs might receive as little as $0.50 on the dollar, whereas a charity would receive the entire amount.

Tying in QCDs & Roth Conversions

The increased standard deduction ($13,850 single/$27,700 joint) and the $10,000 deductibility limit on state & local taxes present a difficult hurdle to exceed for most investors, unless combining multiple years of itemized charitable donations. This is where Qualified Charitable Distributions (QCDs) and Roth conversions come in, as a compelling opportunity for investors with pre-tax IRAs.

If you are at least 70.5, you can gift up to $100,000/year from your IRA to charity. To sweeten the deal even more, QCDs count toward your required minimum distributions (RMDs). This is the most tax-efficient gift most investors can make.

What we propose is that if you were already going to pay taxes on your RMDs, and just reduced your income by the amount of the QCD, why not consider a Roth conversion as a "tax-neutral" play? Roth accounts come with many benefits like tax diversification within your portfolio, tax-free withdrawals (for funds that have been held in the account for at least five years), and no RMDs.

From an estate planning perspective, it is hard to imagine a better asset to leave to your heirs. While Roth IRAs inherited by non-spouse beneficiaries are still subject to the ten-year liquidation window, they retain their tax-free status during those years. Your heirs could keep the assets within the Roth, benefit from the growth being shielded from taxes, and take a lump sum distribution in year ten. Now compare that to your heirs inheriting your pre-tax IRA?

> **From an estate planning perspective, it is hard to imagine a better asset to leave to your heirs than a Roth account.**

Understanding the tax treatment (during your life and after) of the various assets you own, and recognizing who is best suited to inherit them, presents an opportunity to maximize the legacy for your family and the charitable causes close to you.