Avoiding Charitable IRA Beneficiary Mistakes

…in 5 Easy Steps

Can IRAs be used to benefit a charity? IRAs can be a great source of funds to provide a benefit for a favorite charity, but using these funds can create a number of traps that must be avoided in order to maximize benefits to both the charity and other IRA beneficiaries.

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Sean is a member of Ed Slott's Elite IRA Advisor Group℠, an exclusive organization of financial advisors who are dedicated to being leaders in the IRA industry. As an Ed Slott Elite IRA Advisor, Sean proves to be an advisor with the specialized knowledge to navigate an increasingly more complicated tax environment.

1. **Name the charity directly on your beneficiary form.** The money will go directly to the charity, avoiding both the time and expense of probate. Additionally, the distribution to the charity will not be considered income to the estate of the deceased IRA owner

2. **Set up separate accounts.** Consider transferring the portion you intend to leave to charity into a separate IRA account. If other beneficiaries inherit the same IRA as a charity and the charity's portion is not "cashed out" or split within the IRS prescribed time frames, the living beneficiaries may be required to take distributions earlier than would otherwise be required.

3. **Reverse your bequests.** If you have made provisions for certain charities under your will and also have retirement plans, an effective tax strategy would be to reverse the bequests with non-retirement assets. This way, the charity receives the same amount that you were going to leave them in your will, but your heirs will end up with more, because the money they will inherit will not be subject to income tax, as the retirement plan would be.

4. **Don't convert assets you plan to leave to a charity.** Each eligible designated beneficiary identified by September 30 can utilize his or her own single life expectancy to maximize the stretch IRA if a separate account is established and funded by December 31. The single life expectancy factor is determined in the year following the year of the account owner's death. Going forward, the factor is simply reduced by one each year (unless the sole beneficiary is the spouse, in which case he/she re-determines his/her life expectancy each year).

5. **Beware of naming a charity as a trust beneficiary.** A charity is known as a "nondesignated beneficiary," because it does not have a life expectancy. Since a charity has no life expectancy, if it is named as a beneficiary of a trust that is also inheriting an IRA, it can require the remaining trust beneficiaries to take distributions earlier than would otherwise be required.