Making a Planned Gift to St. John's from Your Retirement Plan Is Tax-Savvy and Convenient

A planned or legacy gift to St. John's from a retirement plan makes sense both for tax reasons and because it is so simple and easy.

Tax Benefits

Your retirement plan is probably your largest asset after your home. Because a retirement account (e.g., IRA, 401(k), Keogh, and 403(b)) is funded with pre-tax income, your heirs must pay income tax on funds they withdraw from the part of that account they inherit from you.

In addition, depending on the size of the estate and where you live, gifts to your heirs (including from retirement plans) may be subject to federal and state estate taxes. Maryland is one of 12 states and the District of Columbia that imposes its own estate tax in addition to the federal estate tax.

As a result of a tax law change that became effective in 2020, the timeframe in which heirs are required to pay income tax on an inherited IRA is now 10 years from the date of inheritance. Previously, an heir could stretch out when they paid such taxes based on their life expectancy.

The shorter timeframe can impose a significant burden on an heir because they may be required to sell assets in the retirement account at an unfavorable time in order to pay the tax, and the amount they are required to withdraw from the inherited IRA may place them in a higher tax bracket, particularly if they are still working.

The good news is that no income or estate taxes are owed on a gift to a charity from a retirement account after the donor's death.

Convenience

Making St. John's a beneficiary of your retirement plan does not require a will or a lawyer. You can make a legacy gift to the church simply by adding St. John's to your plan's beneficiary designation form. Just contact your plan administrator or make the change to your beneficiary form online.