Bequests and Retirement Account Gifts

How it works:

A bequest is easy to arrange (see sample text below). It is not payable until death, so it does not affect the donor's assets or cash flow during lifetime. It is private - a will need not be filed or made public until death. And, it is revocable - individuals can change the provisions in their wills at any time until death.

A bequest can deliver a specific gift ("I bequeath the sum of Five Thousand Dollars to The Firs for its general purposes"), or a percentage of the balance remaining in the donor's estate after taxes, expenses and specific bequests have been paid - what's known as the residue of the estate ("I bequeath Ten Percent of the residue of my estate to The Firs for its general purposes"). Generally, giving a percent of the residue allows for more flexibility in long term planning.

A charitable bequest or trust distribution reduces the taxable value of an estate for federal estate purposes, and is exempt from state inheritance taxes.

Since a bequest will likely not be received by The Firs until far into the future, its terms should be as general as possible - we want to avoid a gift benefiting a project that The Firs no longer pursues, or with terms that will be difficult to meet. Please consult us if you are considering a bequest for a specific purpose.

Suggested Text for a Bequest:

I bequeath Ten Percent (10%) of the residue of my estate to The Firs Bible and Missionary Conference, a non-profit corporation located in Bellingham, Washington to be used for its general purposes. The Firs Federal Tax ID Number is 91-0609820.

Gifts of Retirement Assets

Qualified Retirement Plan assets are among the most tax-burdened assets you own. If you die before you have taken most of your distributions from your IRA, 401(k), Keogh, SEP, or other qualified retirement plan, the balance remaining in your plan can be subject to confiscatory taxes that can claim 75% or more of its value.

During your lifetime, the law requires that certain minimum distributions be taken from your retirement accounts after you reach age 70-1/2. These distributions are subject to federal income tax at your current tax bracket. Failure to take the required amount results in a 50% penalty tax on the undistributed amount.

At your death, you can roll over your qualified retirement plan without incurring estate tax to your surviving spouse who can continue to receive distributions. When your spouse dies, however, any remaining plan assets are treated as Income in Respect to a Decedent (IRD) and become subject to multiple levels of taxation:

- Up to 38% federal income tax;
- Up to 49% estate tax (partially offset by an income tax deduction equal to the net estate tax attributable to the IRD); and

- Up to 49% generation-skipping transfer (GST) tax if the distribution is made to a skip person, such as a grandchild.

This can create a scenario where only 20 cents on the dollar is available for one's family or loved ones. There are several ways to create a charitable strategy to minimize taxes:

- The easiest way is to name The Firs as the beneficiary of your plan. Simply fill out a "Change of Beneficiary Form" provided by your plan administrator. If your spouse is living, state law may require that he or she sign a "Spousal Waiver of Benefits." Since such gift intentions are technically revocable, no immediate charitable deduction is allowed, but your estate will receive a deduction at your death.
- Take structured withdrawals from your plan beginning at age 59-1/2 or age 70-1/2 and make outright or life income gifts to The Firs that generate an offsetting charitable deduction.
- Set up a Testamentary Charitable Remainder Trust in your will into which you transfer any residual in your retirement plan at your death, naming your surviving spouse or children as income beneficiaries for life or a term of years and The Firs as the charitable remainder man. This approach will avoid all IRD income tax liability and generate a partial estate tax deduction.

****The information contained herein is for explanatory purposes only and is not intended to be used as tax advice. The Firs recommends that you contact a professional tax attorney who can provide you with additional information on how your participation may affect your personal tax situation.**