All Assets Are Not Created Equal . . .

When it comes to making charitable gifts, all assets are not created equal. In fact, some assets are uniquely suited for charitable giving.

Gifts of appreciated property

For example, we are probably all familiar with the concept of giving appreciated assets. As long as some basic preconditions, such as a one-year holding period, are satisfied, you get an income-tax deduction for the full appreciated value of the asset. In addition, you will not be required to pay capital gains tax on the appreciation that would have been realized had you sold the asset.

Gifts of retirement assets

Retirement assets, such as IRAs, 401(k)s, Keoghs and 403(b)s, also make highly effective gifts. Because retirement assets are subject to uniquely high taxes, making a gift of them is often the best way to negate what approaches confiscatory taxation.

This vortex of taxation surrounding retirement assets comes about because those assets are subject to a wicked mix of income, estate, and generation-skipping taxes. On the income-tax side, distributions from retirement plans are subject to income taxes—and there is no way to avoid making distributions because tax laws require that distributions be made once you reach a certain age.

As for estate taxes, unless you are able to name a spouse as beneficiary, whatever is left in the account when you die is subject to estate taxes. And bear in mind that distributions from the account to your beneficiaries (whether spousal or nonspousal) will continue to be subject to income taxes.

What's more, depending on the circumstances, generation-skipping taxes may kick in as well. Generation-skipping tax (GST) is a special tax imposed on the privilege of passing property to a beneficiary more than one generation younger. So if your beneficiary is a grandchild, you need to be concerned about GST, although there are certain exemptions/protections that can sometimes shield against the imposition of GST.

In order to avoid this trifecta of income, estate, and possibly GST taxes, consider designating Cato as the recipient of any benefit remaining in your retirement plans. Your estate will get an estate tax charitable deduction for the value of the assets passing to Cato. As a charity, Cato will not have to pay income taxes on any distributions.

A couple of final thoughts . . .

Although the exact shape of the estate tax is unclear at this moment, it seems that the estate tax is going to remain part of the landscape. So planning to avoid the estate tax remains viable. One important practical reminder: retirement assets do not pass under your will. They pass via beneficiary designation forms. So having an up-to-date will is not enough.

For more information about gifts of appreciated assets or retirement assets, please contact Cato's director of planned giving, Gayllis Ward, at (202) 218-4631 or at gward@cato.org. ■