This information was prepared for you by Bill Eckert, CEO and President of Charitable Giving Kansas City. Bill has been working with the Cathedral as a Charitable Financial Consultant and he has been a financial advisor for over 30 years. As a practicing Catholic, it's important to Bill to show others how they can provide meaningful support to their parish, but also support them in achieving their own financial goals and in providing a legacy for their family and communities.

FUTURE GIFTS

IRA (Qualified Charitable Distribution)

An IRA is an account set up at a financial institution that allows an individual to save for retirement with tax-deferred growth. There are 3 main types of IRA's, a traditional IRA, a Roth IRA, and a Rollover IRA. Many people wonder how they can wisely use their IRA to support both their lifestyle and their favorite charitable organizations. Most retired donors are receiving income from their IRA accounts and are unaware of the potential tax benefits to them by supporting their annual giving through their IRA.

When a potential donor reaches age 72, they're required to withdraw a certain amount of money from their IRA each year, that is called a required minimum distribution, or RMD. Their RMD amount is calculated by dividing their tax-deferred retirement account balance as of December 31 of last year by their life expectancy factor.

Once a donor reaches age 70 1/2 or older, the IRS allows and even encourages them to support their favorite charitable organizations from their IRA account through something called a qualified charitable distribution. A qualified charitable distribution is a direct transfer of funds from their IRA to a charity. The maximum annual amount that can be transferred directly from their IRA to a charity is $100,000. This qualified charitable distribution counts toward their yearly required minimum distribution (RMD).

Potential Benefits to Donor

- A gift from the IRA directly to the Cathedral is a non-taxable event for the donor, instead of the donor contributing cash and then having to seek an income tax deduction.
- Qualified Charitable Distributions don't require that a donor itemize.
- Ability to lower adjusted gross income which can allow the donor to stay in a lower tax bracket, reduce or eliminate the taxation of Social Security or other income, and remain eligible for deductions and credits that might be lost if the donor had to declare the RMD amount as income.

Potential Benefits to the Cathedral

- Donors can donate more because it's a nontaxable event, versus trying to claim itemized charitable tax deductions.
- Since individuals are required to take out their RMD at age 72, more wealthy donors are required to take out more than they need as income, and this provides a perfect charitable giving opportunity.

Let's explore an example of Bob and Linda, a lovely married couple who are both 73 years old (this is a hypothetical example for illustrative purposes only). They are financially secure, and they make yearly contributions to the Cathedral and their other favorite nonprofit organizations. They would like to contribute more to them, but they also would like to receive more tax benefits. A qualified charitable distribution from their IRA may be a perfect opportunity for Bob and Linda to meet these goals.

Currently the couple has been withdrawing $50,000 a year as a required minimum distribution from their IRA. However, they only need $40,000 as income upon which to live. This means that they've had to take out an extra $10,000 from their IRA and pay an additional 25% in income taxes which is $2,500 of that $10,000. This leaves them with only $7,500 to make charitable contributions each year.

Now that Bob and Linda understand how the qualified charitable distribution works, they know they are required to take out $50,000 a year. However, since they only need $40,000 to support their lifestyle, if they use the qualified charitable distribution, it means they can give $10,000 directly from their IRA to the Cathedral and their other favorite charities, without losing the $2,500 to taxes. The result is that they increase their annual giving from $7,500 to $10,000, a 33% increase in their charitable giving. In essence, they have redirected the taxes they would be paying to the government on their IRA to their favorite charitable organization instead. This is a win for the Cathedral, the other charitable organizations, and for Bob and Linda.

Special Note on IRAs: How to Avoid the IRA Tax Liability AT Death

Under current law, when a non-spouse, such as a child or sibling, inherits an IRA at death from a parent or sibling there are tax consequences. When the beneficiary takes a withdrawal from the inherited IRA, it is taxed at ordinary income rates at the beneficiary's highest tax brackets. When the beneficiary inherits the IRA, they have discretion within the first 10 years on when they would like to take withdrawals, but by the end of the 10th year the entire amount of the IRA is forced out and becomes a taxable event for the beneficiary.

What most beneficiaries, i.e. donors, don't know is that if they leave the IRA to their favorite charitable organizations it is not taxed, and the charity receives the entire amount without any loss due to taxes. Today, for planning purposes, we see many people who are starting to choose to leave some or all their IRA assets to charity and all their other non-IRA assets to their family members, which is currently nontaxable.

If you are interested in using your IRA to make a gift to the Cathedral of the Immaculate Conception, please contact Bill Eckert, CEO and President of Charitable Giving Kansas City, who is working with the Cathedral as a Charitable Financial Consultant. He may be reached at (913) 322-9177 or beckert@cgkc.us.

CHARITABLE REMAINDER TRUST

The charitable remainder trust is one of the least known charitable tools, but it can have the largest financial impact for a donor and the Cathedral.

The Charitable Remainder Trust (CRT) creates three gifting opportunities:

- Current gifts today because of the significant tax deductions for the donor.
- Annual gifts because of the lifetime income stream the donor receives.
- Principle of the trust goes to the Cathedral when donor passes.

At a high-level, the CRT is a tool with which a donor can sell highly appreciated assets without incurring capital gains taxes or other taxes. This could include such things as highly appreciated stock, real estate, office buildings, apartments or duplexes, land, farm equipment, etc. The donor gifts the asset to the trust and then the trust sells the asset to a willing buyer. The trust receives cash for the sale and then the trust invests that cash into a professionally managed portfolio which provides the donor with a lifetime income stream.

Potential Benefits for Donor

- Significant tax deductions for possibly up to six years.
- Selling the assets, such as real estate, and avoiding all capital gains tax and recapture of depreciation taxes.
- Lifetime income stream.
- Asset protection from creditors or lawsuits.

Potential Benefits to the Cathedral

- Current gift today created by the donor's tax deduction.
- Yearly gifts from the donor because of increased income stream of donor.
- Principal of the trust donated at the donor's death.

To help illustrate how a CRT works, let's look at Mary (This is a hypothetical example, for illustrative purposes only of Mary). Mary is 80 years old and sadly, her husband Bill recently died. When Bill and Mary were in their 20s, they purchased a farm and they lived there for their entire marriage. However, now that Bill has died, Mary wants to downsize and sell the farm because she has no need for so much property or such a large home.

Bill and Mary originally purchased the farm 60 years ago for $100,000. Today, the farm has appreciated in value and is now worth $2,000,000. If Mary chose to outright sell the farm, she would be required to pay a capital gains tax on the $1,900,000 appreciation of the farm. Her combined capital gains tax and ordinary income tax on the recapture of depreciation is 35%, this means Mary's taxes would be $665,000. In the end, Mary would only net a total of $1,335,000 for the sale of her $2,000,000 farm once the taxes are taken out. If Mary were then to invest that $1,335,000 in a professionally managed portfolio at 6%, she would be left with an income stream of only $80,000 per year.

But let's say that Mary chose to gift the farm to the Cathedral through a CRT instead. In this case, the entire value of the farm, $2,000,000, would go to the Cathedral at her death. The CRT can then sell the farm tax free and reinvest the $2,000,000 into a professionally managed portfolio at 6% interest. This would then provide Mary with an income stream of $120,000 per year. Some of this may be taxable based on how the investment stream is managed in the trust. Mary would also get a tax deduction based on the IRS formula for someone who is age 80, for Mary this would be 80%. This means that 80% of the $2,000,000, which is $1,600,000, can be used to lower her taxes for up to 6 years or until the deduction is gone.

If you would like to learn more about CRTs, please contact Bill Eckert, CEO and President of Charitable Giving Kansas City, who is working with the Cathedral as a Charitable Financial Consultant. He may be reached at (913) 322-9177 or beckert@cgkc.us

LIFE INSURANCE

The gift of life insurance is one that creates a mountain out of a molehill. Most commonly people buy life insurance to protect their families by creating an estate. Their family members can use the money in the estate to pay off debts, put their children through college and create an income stream. This financial support is something that the family would have normally had if this person had not died. In essence, the life insurances replaces the income of the deceased.

Life insurance is also a valuable gift that has a huge multiplier effect when given to the Cathedral. A donor can buy a life insurance policy and pay a small premium to create a larger gift at their death. By either gifting a policy outright or naming the Cathedral as a beneficiary, they can provide the Cathedral with a large sum of money and provide a legacy for a cause they believe in. This is also a useful way to dispose of an unwanted policy originally purchased to cover a need that no longer exists.

Potential Benefits to Donor

- The donor can create a large gift at their death which costs pennies on the dollar over time.
- If the policy is owned by the Cathedral, then when the donor pays the life insurance premium the donor's gift is considered a tax deduction.
- Gifting a life insurance policy to the Cathedral can greatly reduce the donor's taxable estate, which can save thousands of dollars in estate taxes for upper-income taxpayers.
- Many donors start a small endowment fund during their lifetime to honor a spouse or family member only to have that cease when the donor dies. With this method, the life insurance gifted at the donor's death could provide perpetuity to the endowment.

Potential Benefits to the Cathedral

- Life insurance allows someone with less income to make a large, deferred gift.
- The Cathedral will receive the entire face amount of the policy upon the death of the insured and this can represent a substantial windfall for the charity.
- Life insurance allows annual givers to create endowments or other gifts in perpetuity.

A hypothetical example would be Betty who is 65 years old. She is financially secure and has enough income to comfortably maintain her lifestyle for the rest of her life. She has a life insurance policy that she no longer needs which could create a gifting opportunity to the Cathedral. She has several options. Option one, she could continue to own the policy and pay the premiums. The beneficiary of the policy would be the Cathedral, and this would result in a significant gift to the Cathedral at her death. Option two, she could gift the life insurance policy and change the ownership to the Cathedral today, meaning that there would be a tax deduction on the amount of the cash value the Cathedral receives in that year. Meanwhile, she could continue to give annually to the Cathedral, which is a tax deduction, and this could be used to pay the premium. Upon Betty's death, the Cathedral would receive to total value of the life insurance proceeds.

If you are considering a gift of life insurance to the Cathedral, either through a new policy or from an existing policy, please contact Bill Eckert, CEO and President of Charitable Giving Kansas City, who is working with the Cathedral as a Charitable Financial Consultant. He may be reached at (913) 322-9177 or beckert@cgkc.us.