

# Minimize Taxes by Giving “Tax-Embedded” Assets

## Wheaton College Gift Planning Services

It is powerful to use “tax-embedded” assets – *those with a unique taxable nature* – for charitable gifts to maximize giving to loved ones *and* charity while minimizing taxes. We recommend 2 types for charitable giving!

- 1) **Appreciated Assets** have *increased* in value since being acquired.
  - Examples: real estate, stocks/securities, and business interests.
  - The original value is **basis**, and the increase in value is **gain**.
  - Capital gains taxes are due on the gain when the asset is sold:
    - Long-term capital gains (property held over a year) rates are generally 15 to 20%, and short-term capital gains are taxed at one’s income tax rate.
- 2) **Traditional (non-Roth) Retirement Assets** are *tax-deferred* and have not yet been taxed.
  - The pre-tax money grows tax-free within a retirement account, providing for more significant growth than in a taxable account.
  - Withdrawals are taxed at the recipient’s tax rate (either the owner or inheritor).

Charities like Wheaton receive tax-embedded assets without incurring tax, unlike individuals who will be taxed when they receive them. If you want to include loved ones *and* charity in your estate, consider using tax-embedded assets for charitable gifts and other assets for loved ones.

**Example:** Dan wants his \$2M estate to benefit his son Sam and his alma mater, Wheaton. He has a \$1M house, \$500K in bank accounts, and a \$500K traditional IRA. By swapping the asset going to charity, about \$125K is re-directed away from taxes, and to Sam!

- **Scenario 1:** Dan directs the \$500K IRA to Sam, and \$500K gift from his Will (estate) to Wheaton, and the \$1M remainder to Sam. When Sam withdraws the IRA assets he inherits, he will incur tax. Assuming a flat 25% tax rate, Sam receives a net of \$375K from the IRA, while \$125K goes to taxes. Wheaton receives \$500K from the estate, and Sam receives the remainder (\$1M), for a total of \$1,375,000 to Sam.
- **Scenario 2:** Dan directs the \$500K IRA to Wheaton and the entire estate via Will to Sam, which has a much better result for Sam. Sam receives \$1.5M from the estate (house and bank accounts), and Wheaton receives the full \$500K from the IRA. Sam receives \$125K more inheritance because Dan switched the gifts, directing tax-deferred retirement assets to charity – a simple change with powerful results!

# A Simple Change Provides More for Loved Ones *and* Charity!

## Wheaton College Gift Planning Services

### Scenario 1

- \$500,000 traditional IRA to son Sam.
- \$500,000 to Wheaton College via Will (estate) with \$1,000,000 remainder of estate to Sam.

### Result

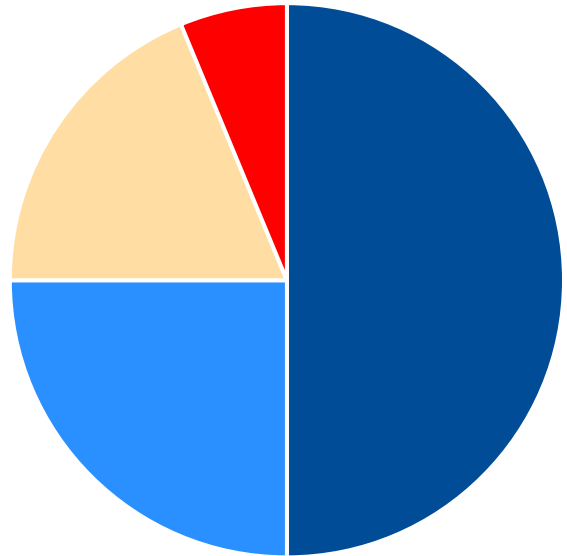
- From traditional IRA, estimated 25% tax rate = \$125,000 income tax. Sam nets \$375,000.
- From estate, Wheaton College receives \$500,000, and Sam receives \$1,000,000.

\* *Inherited tax-deferred retirement assets are taxable. Typically, other inherited assets have no income tax liability.*

### TOTALS

**\$1,375,000 to Sam**  
**\$500,000 to Wheaton College**  
**\$125,000 to taxes**

### \$2 Million Estate



■ House      ■ Bank Accounts  
 ■ Trad. IRA      ■ Tax on IRA

### Scenario 2

\$500,000 traditional IRA to Wheaton College.  
 \$1,500,000 to Sam via Will (estate).

### Result

- From traditional IRA, no tax liability. Wheaton College receives \$500,000.
- From estate, Sam receives \$1,500,000. No income tax liability on non-retirement assets.

### TOTALS

**\$1,500,000 to Sam**  
**\$500,000 to Wheaton College**  
**\$0 to taxes**

### \$2 Million Estate



■ House      ■ Bank Accounts      ■ Trad. IRA

**\$125,000 in tax savings in Scenario 2!**

**The information herein is not intended as legal, tax, or financial advice. Please consult with your attorney, financial or tax advisor for advice specific to your circumstances.**