Make assets work for you and parish, says Brusda

IRAs can ease tax bite, says chairman of asset management group

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Ken Brusda, a member of St. Mary Parish in Neenah, helps parishioners establish IRAs that reduce their taxes while supporting their parish.

NEENAH — "Avoid taxes. Make IRA payable to parish endowment" was the headline on a recent article in St. Margaret Mary Parish's bulletin. The parish's endowment trustees are making an effort to educate parishioners on financial options that will help keep the parish viable well into the future.

Ken Brusda, an endowment trustee, said the parish is using the bulletin as a way to get out information so parishioners can "get the best bang for their buck." Since tax laws can change yearly, anyone considering making a change in their IRA or other investments should consult their financial or tax advisers.

Brusda is chairman and managing director of North Star Asset Management in Menasha. He and several others founded the company in 1996 after working for many years with Associated Bank.

He lists several advantages, mostly in the area of tax savings, for people to make the church or diocese — or any other favorite nonprofit organization — a beneficiary of a traditional IRA, which is made up of "pre-tax" funds. He notes that this is not recommended for those with a Roth IRA because those are made up of "after-tax" funds.

For example, he said, "A single individual with a taxable estate of over $5.45 million ($11.9 million for a married couple), could have his IRA be subject to an estate tax rate of up to 40 percent. If his heirs are in a high marginal tax bracket, the IRA assets could eventually be taxed again at a rate as high as 47 percent in federal and state income taxes. The heirs end up with only about 13 percent of the original amount.

"However, if you make a charitable gift at death through your IRA beneficiary designation, you avoid both the estate tax and the eventual income taxes," said Brusda. "Even for individuals not subject to estate taxes, it is much more tax efficient to gift pretax IRA assets at death (through the IRA beneficiary designation) and preserve your after-tax assets for your heirs. Even for someone without a lot of assets, it makes sense to save tax dollars," he said.

It also makes good sense to look at Qualified Charitable Distributions (QCD) from your IRA when considering lifetime gifts to charities. The IRA owner must be over 70½ and must direct the financial institution to make the charitable donation directly to a qualifying nonprofit organization. As long as it doesn't pass through the taxpayer, it is not taxed. According to this law, the charitable organization cannot be a private foundation or donor-advised fund, he said.

The law allowing QCDs has been around since 2006, Brusda said, but in the past, it has been renewed annually by Congress, often very late in the year. In December 2015, the law was made permanent, which allows people to better plan their charitable contributions using this method.

Brusda listed four advantages to using the QCD:

■ The QCD counts toward a person's required minimum distribution (RMD).

■ The contribution is not counted as income on tax returns, which holds down a taxpayer's adjusted gross income (AGI). "This is important for retired folks because the adjusted gross income figure can affect taxability of Social Security and adjustments to Medicare Parts B

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and D premiums. Medical deductions also are based on a percentage of AGI, so "the bigger your AGI, the bigger the hurdle for meeting that deduction requirement," he said.

■ Taxpayers who don't itemize their deductions and take the standard deduction instead, still benefit by reducing their adjusted gross incomes if they use QCD, otherwise, charitable contributions are only deductible if taxpayers itemize deductions.

■ For taxpayers with a higher AGI, the tax code phases out deductions, so the QCD is a way to get the full benefit of deductions, Brusda said. In 2016, taxpayers having an AGI of $259,400 (or $311,300 for joint filers or surviving spouses), itemized deductions and personal exemptions begin to be phased out. Also, because the qualified charitable IRA distribution is not counted in the AGI, it helps avoid triggering these phase-outs.

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Brusda said there is one other charitable gifting technique that could potentially be even more advantageous than the QCD. "This involves gifting significantly appreciated assets such as stocks, collectibles or real estate. For those in the 25 percent federal income tax bracket or higher, gifting these appreciated assets directly to the church, would provide a double benefit of avoiding the capital gains taxes and receiving a deduction for the full market value of the gift."

Brusda added, "This double-barreled tax benefit could amount to as much as 40 to 50 percent of the gift, depending on the amount of capital gain and the tax bracket of the donor."

Whatever technique best fits your situation, Brusda said, "It makes sense to get 100 percent bang for your buck. There might be a little more paperwork, but it is worth the effort. You could be talking about thousands of dollars of tax savings, so this is a win-win for the individual and the church."