Will You Avoid the IRA Tax Trap? The IRS is Waiting to Take its Share...

Learn to avoid the IRA tax trap. A clear overview of the benefits of using IRAs and other retirement plans to fund estate gifts.

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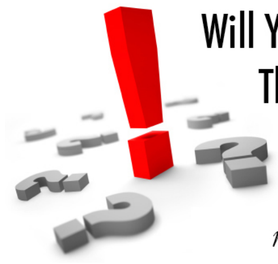

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Your retirement plan is probably one of your two largest assets, whether it is an IRA, Keogh, 401(k), 403(b), or other account. You've invested it for growth and have been cautious about taking withdrawals. With good planning, you figure, you and your spouse will not spend the current total in your lifetimes, so this could be a substantial asset to pass on to your heirs.

Watch out! The IRS considers the balance left in your retirement account to be untaxed income. They term it "Income in Respect of a Decedent" (IRD), and if you bequeath that balance to your heirs, the IRS will subject it to both income and estate tax. This potential double taxation can consume as much as 60 percent of the value of your account, leaving less than one-third to your heirs (not to mention state inheritance taxes and possible Generation-Skipping Tax if the balance goes to grandchildren).

What to Do?

Think charitably, and your heirs can actually come out ahead.

Name Pomona College as the beneficiary of your retirement plan, and then use other assets, not subject to income tax, to make gifts to children, family, and friends. Since we are a non-profit organization, we won't pay income tax on the distribution (nor will the plan balance be included in your taxable estate). In turn, your heirs will receive more of your estate by taking assets not burdened by extra taxes.

The Benefits:

- You will escape both income and estate taxes;
- You can continue to take withdrawals from your retirement plan during your lifetime;
- You can change the beneficiary designation if your circumstances change;
- You can make a significant gift to us that costs you nothing during your lifetime, is revocable, and does not affect your income or cash flow.

Planning Points:

- You can make us a partial beneficiary of your plan, and direct the balance to your heirs.

At your death, the plan administrator will withdraw our share, providing an immediate gift to us and leaving the balance to benefit your loved ones.

- Use your plan's beneficiary designation form to direct your gift to us. Don't use your will — if you do, your retirement plan may be included in your probate estate and subject to the estate administration process.

- Don't use the balance in your retirement account to satisfy a dollar-amount bequest to us that is already in your will. Your estate may be treated as having received taxable income in the amount of the bequest that you paid with the retirement plan assets.

How do I do it?

First, consult with your plan administrator and your advisors. When you're ready to move forward, simply notify your plan administrator of your wish to change the beneficiary designation. We are ready to assist you through every step of the process.

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