

Robert S. Keebler, CPA/PFS, MST, AEP: IRA Trust Client Summary

New 10-Year Payout Rule

Under the SECURE Act, post-death required minimum distributions (RMDs) to a "designated beneficiary" (e.g. children) can no longer be "stretched" over that beneficiary's life expectancy.

Instead, the designated beneficiary's "inherited" IRA (and/or "inherited" qualified plan) must be completely distributed out to the beneficiary as of December 31st following the tenth anniversary of the IRA/qualified plan owner's death (e.g. 12/31/2030 for an IRA/qualified plan owner dying in 2020).

This is a significant change and presents a new income tax trap for the unwary. Therefore, most families will benefit from carefully re-considering their beneficiary designations and taking steps to assure their IRAs are prudently managed after their death.

Eligible Designated Beneficiary

Notwithstanding the above, there is a new class of beneficiaries, referred to as "eligible designated beneficiaries" ("EDBs"), who are still permitted to take post-death RMDs over their calculated life expectancy.

Below is a list of EDBs:

1. The surviving spouse of the IRA/qualified plan owner
2. The IRA/qualified plan owner's children who are under the "age of majority" at the time of the IRA/qualified plan owner's death
 - A child may be treated as not reaching the "age of majority" if he/she has not completed a "specified course of education" and is under the age of 26.
 - Once a child has reach the "age of majority", the IRA (and/or qualified plan) must be completed distributed out to the beneficiary within ten years after reaching the "age of majority"
3. Disabled persons
4. Chronically ill persons
5. An individual not more than ten years younger than the IRA owner

It is important to note that upon an EDB's death, the successor beneficiary must withdraw the remaining IRA (and/or qualified plan) balance by December 31st following the tenth anniversary of the EDB's death (e.g. 12/31/2032 for an EDB who dies in 2022).

Moreover, in order to effectively take advantage of most of these strategies additional planning beyond a beneficiary designation will be required.

Should My IRA be Payable to a Trust?

1. **Asset Protection:** Consider whether your beneficiaries are ready for the amount of money you have in-mind. If not, a trust may be advisable. Some of the issues to consider are maturity, spending-habits, investment experience, divorce protection, and other creditors which could arise.
2. **Dead-Hand Control:** You also may be interested in exercising control of the assets after your death. For example, you might think receiving a large sum would interfere with a beneficiary's career development or have concern that your surviving spouse may divert assets from your family.
3. **Eligible Designated Beneficiary:** If your beneficiary is, or may be at your death, disabled or chronically ill, a trust will almost certainly be advisable. Such persons may have difficult managing the funds and may be able to remain eligible for government benefits if the funds are in trust.
4. **Bracket Arbitrage:** Prudent management post-mortem IRA now requires the beneficiary to understand the tax-consequences of distributions. Imprudent distributions or imprudently skipping distributions can easily and realistically cause up to 20% of the IRA to be lost to unnecessary taxation. A competent trustee can help beneficiaries effectively manage this and for some families the value of savings will more than offsets the cost of using a trust.

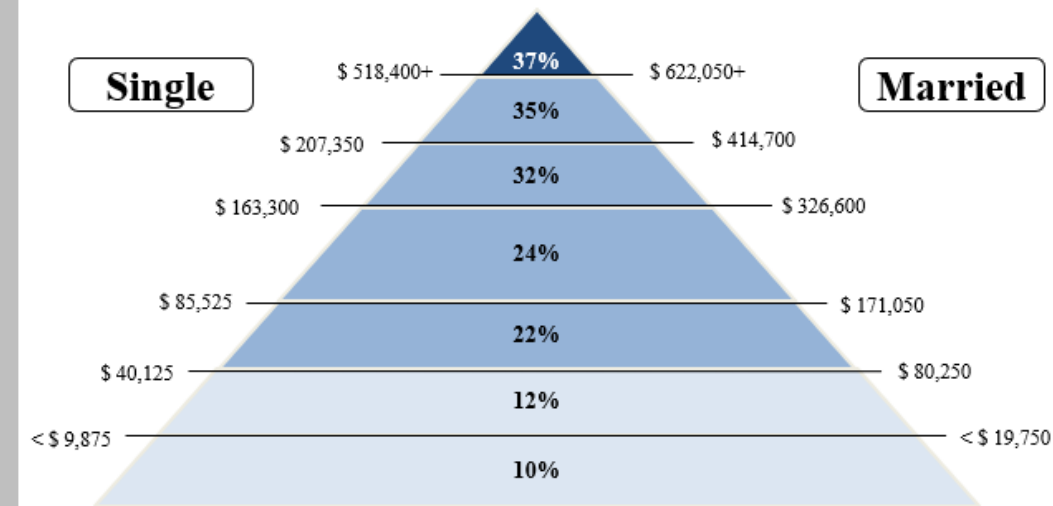
Multigenerational Trust Bracket Arbitrage

Bracket arbitrage savings are both easy and difficult to compute, depending on your perspective. It difficult to compute precisely because the future is uncertain. Consider that the value of your IRA assets will change from when you undertake planning, to your death, and to when the beneficiaries take distributions. Second, knowing the tax rate your beneficiary will be subject to, in say a decade, is extremely difficult. However, inaction is equally problematic. First, recognize that assets in an IRA grow tax-deferred, which provides an incentive to avoid unnecessary early distributions. Second, tax rate progressivity is a feature of the tax code no one expects to change; Consider the tax rate you are subject to, compared to children and then compared to your grandchildren. Therefore, for almost everyone, small distributions will be subject to a lower rate than a large distribution and preventing large imprudent distributions is valuable.

Tax Rate	Size of IRA at Death			
	\$ 400,000	\$ 600,000	\$ 800,000	\$1,000,000
10.0%	\$ 40,000	\$ 60,000	\$ 80,000	\$ 100,000
12.5%	\$ 50,000	\$ 75,000	\$ 100,000	\$ 125,000
15.0%	\$ 60,000	\$ 90,000	\$ 120,000	\$ 150,000

To determine your potential tax savings, you must determine the difference in tax rates the distributions would be subject to without the trust. For example, your children may find it advisable for the grandchildren to recognize the IRA income at low rate; Such later considerations would be impossible without a trust. You may also need to consider that your beneficiaries could mismanage the distributions and unnecessarily incur additional taxation.

Tax Rates & Thresholds



TOP OF EACH BRACKET

	S	MFJ/QW	MFS	HOH	T&E
10%	\$ 9,875	\$ 19,750	\$ 9,875	\$ 14,100	\$ 2,600
12%	\$ 40,125	\$ 80,250	\$ 40,125	\$ 53,700	-
22%	\$ 85,525	\$ 171,050	\$ 85,525	\$ 85,500	-
24%	\$ 163,300	\$ 326,600	\$ 163,300	\$ 163,300	\$ 9,450
32%	\$ 207,350	\$ 414,700	\$ 207,350	\$ 207,350	-
35%	\$ 518,400	\$ 622,500	\$ 311,025	\$ 518,400	\$ 12,950
37%					

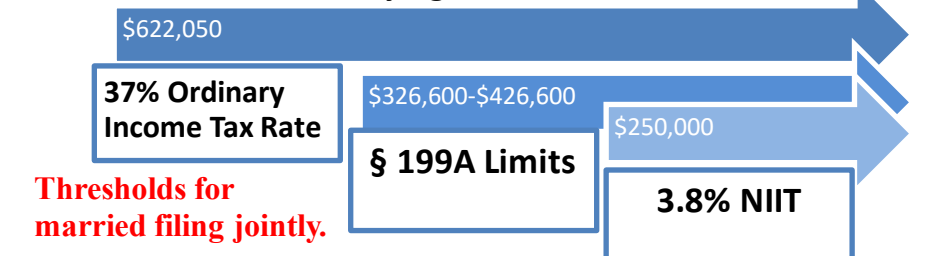
TOP OF EACH CAPITAL GAINS BRACKET

	S	MFJ/QW	MFS	HOH	T&E
0%	\$ 40,000	\$ 80,000	\$ 40,000	\$ 53,600	\$ 2,650
15%	\$ 441,450	\$ 496,600	\$ 248,300	\$ 469,050	\$ 13,150
20%					

3.8% NIIT THRESHOLDS

S	MFJ/QW	MFS	HOH
\$ 200,000	\$ 250,000	\$ 125,000	\$ 200,000

"Flying Below the Radar"



Thresholds for married filing jointly.