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IRA TRUST

Use this guide to understand how to use an IRA Trust as the beneficiary of your IRA.

Benefits of IRA Trusts

If you die with a large IRA and you leave it directly to a child, that child can either take a lump sum distribution or withdraw the money over his or her life expectancy.

An IRA Trust is designed to be the recipient of the IRA distributions. You eliminate the right for a child to take a lump sum distribution and force him or her to delay the income taxes as long as possible. If the child dies before the IRA is depleted, you (not the child) dictate the remainder beneficiary such as grandchildren. No one else can claim the IRA balance.

Tax Advantages of IRA Trusts

Income taxes are paid as the money is withdrawn from the IRA. For example, if you leave $1M in an IRA and the child withdraws all of the money, the federal and state income taxes would be about 40% for a loss of principal of $400K. However, if the IRA beneficiary is an IRA Trust, the IRA would be payable to the Trust and then to the child over the child's life expectancy reducing the overall tax consequences.

Example

You set up the IRA Trust stating that minimum distributions are payable to your child for life and the remainder to his or her children.

- The child or other beneficiary receives a nice cash flow from the IRA. That cash flow grows each year. The principal of the IRA grows tax deferred.
- In the early years when your child is working, the cash flow is smaller. After the child retires, the cash flow increases.
- The Trust could also provide for the child to take out more than the minimum distribution in the event of a medical emergency or financial crisis.
- Because the Trust has a spendthrift clause, the IRA is protected from the child's creditors in the event of divorce, law suits, and nursing homes.
- If this child dies, the IRA balance passes to your selected remainder beneficiary under the same distribution terms. The IRA balance is not included in the child's estate for estate tax purposes.

The views expressed regarding IRA Rollovers are for commentary purposes only and do not take into account any individual personal, financial, or tax considerations. It is not intended to be a solicitation to buy or sell or engage in a particular investment strategy. Before initiating a rollover, please consult with a tax professional.

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