

Inherited IRAs: A Charitable Solution?

Remember the good old days when your clients could withdraw the money they inherited in their parents' IRAs over the course of their lifetimes, thereby deferring the income tax for as long as possible? This so-called "stretch IRA" was largely eliminated by the SECURE Act of 2019, requiring most non-spouse beneficiaries to withdraw the entire inherited IRA within 10 years, rather than stretching withdrawals over their lifetime.

For a very specific subset of your clients, however, there may be an [alternative](#).

Here is the ideal fact pattern:

- Your client owns an IRA
- Your client is very philanthropic, and charities are prioritized in the client's estate plan even where the client has children or other heirs.
- Your client has identified a young, healthy heir to whom the client would like to leave a legacy gift
- This heir is likely to be in a high income tax bracket in the years ahead and wants to defer income tax wherever possible



The concept, oversimplified for illustration purposes, **goes something like this:**

- Instead of naming the heir directly as the beneficiary of the IRA, your client instead would name as beneficiary a charitable remainder unitrust, referred to as a CRT, or even a "NIMCRUT" (net-income make up charitable remainder unitrust), of which the heir is the income beneficiary.
- The CRT would receive the IRA proceeds upon your client's death.
- The tax result of this structure somewhat mimics the old stretch IRA because, as a charitable entity, a CRT does not itself get hit with income tax on the income from the IRA.
- According to the terms of the CRT, the assets can be distributed annually over the heir's lifetime (or for a fixed period of up to 20 years) and, similar to what would have happened with the old stretch IRA, the heir will pay income taxes on distributions from the trust as they are received.

So why doesn't everyone do this?

Here are three reasons:

- It's actually possible for an heir to be too young for this technique to work well. The IRS requires that a CRT's pay-out rate result in a present value of the future gift to charity of at least 10% of the value of the initial gift. This means that the pay-out rate could be too low to justify the expense and hassle of the transaction where the CRT's income beneficiary is very young.
- There is always a risk that the heir will die prematurely, sending the entire remainder interest to the charity with nothing remaining to pass to the heir's own heirs.
- Even when compared with the 10-year rule, it can take a very long time for the CRT's tax benefits (i.e., more wealth) to outweigh the projected "loss" of the assets that will ultimately go to charity.

What's the bottom line here? If your client is truly charitable, they may be better able to fulfill their charitable goals by naming a charity, **such as the client's fund at the Chester County Community Foundation, as the beneficiary of the client's IRA**, leaving other assets eligible for the step-up in basis to fund the estate gifts for heirs.

As always, the team at the Community Foundation is here to help! Please reach out anytime.

For more information, contact the Chester County Community Foundation:

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