

Planning Partners PressTM

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Using IRAs with Charitable Remainder Trusts

(Part 3 of 3)

In the first part of this series, we introduced the strategy of naming a Charitable Remainder Trust as the beneficiary of an IRA. It would work like this:

1. Client creates an estate plan calling for the creation of a Charitable Remainder Unitrust on death (thus testamentary CRT)
2. Client names CRT as beneficiary of his or her IRA
3. The CRT receives a lump sum distribution of the IRA assets on client's death
4. The beneficiaries of the CRT receive a set annual percentage payout from the CRT for life
5. Upon the death of the final beneficiary, the "remainder" of the CRT principal is paid to the charity or charities named in the CRT

In the last issue, we discussed the income and estate tax ramifications of this strategy. This time we'd like to pull all this information together to highlight some planning points.

First, note that the whole strategy is based on how the math works out at the time the CRT is set up. Several variable factors must be taken into consideration and will influence how well the strategy works: the individual's age, the payout percentage chosen, the age(s) of the beneficiary(ies), and the current "Applicable Federal Rate" (AFR) or "Section 7520 rate."

When the numbers are run, one "requirement" in the resulting illustration must be that, based on all the other variable factors, the remainder charity must be estimated to receive at least 10% of the initial contribution to the CRT – even if it works out otherwise in "real life."

Of course, there are many other legal factors and considerations to take into account which we can't cover in this brief "primer."

Consider how powerful this technique could be to provide a stream of income for a surviving spouse, then for children, prior to the remainder going to a charity! In fact, such a two-generation CRUT will often out-

perform a stretch IRA!

The testamentary CRT can avoid many of the planning challenges faced when naming a charity directly as the beneficiary of an IRA such as failing the "Designated Beneficiary" test.

In addition, there are at least three planning situations where a spousal rollover to a new IRA may not be possible or desirable, and where this CRT strategy may provide a solution:

- a. When the IRA owner is not married
- b. When the IRA owner is in a second marriage, or
- c. A married couple who might be subject to estate tax

As with any planning strategy, the decision whether or not to use these techniques must be based solely on an in-depth counseling session with the clients, and a thorough evaluation of their goals and needs. One of the assumptions that permeates this whole discussion is that the client has some charitable inclinations!

PERSONALIZE ME!

This area of the Planning Partners Press newsletter is used to provide information about your firm, upcoming workshops, and biographical information.

Examples include:

Upcoming Workshops

Truth About Estate Planning Workshop

- May 7, 2025 at 2:00 p.m.
- May 12, 2025 at 7:00 p.m.

Biographical Information

Attorney Robert Smith limits his practice to the area of Estate Planning and Administration. Our offices are located ...

Or even graphics!

