



Should a Trust Inherit a Client's IRA? It Depends.

In the wake of the Setting Every Community Up for Retirement Enhancement (SECURE) Act 1.0 and new regulations for required minimum distributions, leaving an IRA to a trust requires careful planning. Knowing how to answer some foundational questions can help you guide your client as they work with legal counsel on beneficiary options for qualified assets in their estate plan.

The SECURE Act 1.0 changed estate planning for IRAs and other qualified assets (referred to here as IRA assets), but many IRA owners still may have concerns about how some beneficiaries will receive those assets. The compressed period for depletion of the account—10 years for most beneficiaries of IRA assets—can heighten worries about beneficiaries with poor financial acumen. Other specific scenarios may require less straightforward planning; for example, a client with a second marriage may need to provide income for the second spouse while the remaining assets go to children from their first marriage.

An IRA account owner who needs more control over these assets may elect to name a trust as the beneficiary of an IRA. While this allows for control of the assets, it also comes with challenges. While a trust can be the beneficiary of qualified assets, only certain trusts can take advantage of various beneficiary distribution options. The questions and answers below can help you guide clients as they work with legal advisors to create sustainable plans.

1. What is a “see-through” trust?

As noted above, while any trust can be the beneficiary of IRA assets, only a “see-through” trust will have all beneficiary distribution options available. A see-through trust must meet specific requirements that allow the trust to be treated as a “person” for the purposes of the inherited IRA distribution options. Without this status, the trust is limited to the distribution options for entities—either a

lump-sum distribution or distributions across five years. To qualify as a see-through trust, it must:

- Be valid under state law.
- Be irrevocable when the grantor dies.
- Have beneficiaries that are identifiable, and the ones counted must be individuals.
- Ensure documentation goes to the IRA custodian by 10/31 of the year following the year of the IRA owner's death.

By meeting these requirements, the trust may use the distribution options available to individual beneficiaries.

2. What distribution options are available to see-through trusts?

Distribution options available to individual trust beneficiaries are complex and depend largely upon whether the trust must be divided among the beneficiaries upon the death of the grantor. If so, then individual beneficiaries may have different distribution options available to them. Availability will depend on whether a beneficiary is an eligible designated beneficiary (EDB), a designated beneficiary (DB), or a non-designated beneficiary (NDB).¹ EDBs have the option of a life-expectancy payout, and spouses are able to recalculate their life expectancies each year. DBs more limited; the account must be completely distributed by 12/31 of the 10th anniversary of the IRA account owner's death. If the IRA

¹Eligible designated beneficiaries include a spouse, minor child of the IRA account owner, the disabled or chronically ill, and those not more than 10 years younger than the IRA owner. Designated beneficiaries include adult children, grandchildren, or others more than 10 years younger than the IRA owner. Non-designated beneficiaries include estates, entities (such as a charity), or trusts that do not meet the “see-through” requirements.

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owner died on or after their required beginning date (RBD), the beneficiary must take annual distributions during the 10-year period. NDBs only have two options: a lump sum or five-years distribution. For more information, consult our blog article, "Inherited IRAs—A Guide to Help Beneficiaries Who Inherit an IRA in 2020 or Later."

It is easy to be confused. While some beneficiaries are required to take distributions, many beneficiaries may choose to spread distributions across 10 years for tax purposes. It is critical to distinguish those who may from those who must.

An additional note: Typically, the IRA custodian will require the trustee to determine whether the beneficiary is an EDB or a DB. The trust tracks all monies paid to or distributed from the trust, including any distributions from the inherited account. The trust will receive Form 1099-R for tax purposes. Clients should work with legal and account counsel in this area.

3. What is a "ghost life expectancy" distribution option, and how does a trust get one?

Did you know that an inherited IRA could involve a ghost? When a traditional IRA account owner dies after his or her RBD, a non-designated beneficiary has two distribution options: lump-sum or the remaining life expectancy of the deceased IRA owner. A trust that does not meet the "see-through" requirements can use the remaining life expectancy of the decedent.

Why might this be attractive? If the decedent's remaining life expectancy is longer than 10 years, the trust can use that longer period to take distributions. In some circumstances, this can allow a better tax outcome.

4. How are the distributions from a trust-inherited IRA taxed?

It depends on a few considerations. Let's assume the only asset the trust holds is the IRA distribution. The IRA distribution is paid to the trust and is considered income to the trust. If the trust distributes the income to a beneficiary, the income is included in the beneficiary's income and taxed at the individual's rate. If the trust can accumulate income, then any income that remains in the trust is taxed at the trust tax rates.² Assuming they are qualified, Roth IRA distributions are tax-free.

ACTIONS YOU CAN TAKE RIGHT NOW

- **Identify clients with large IRAs and few beneficiaries.**
- **Review their current beneficiary designations.**
- **Help determine whether their current plans meets their beneficiary goals.**

The trust tax rates apply to significantly compressed tax brackets. For example, in 2025, the maximum income tax rates apply to trust income above \$15,650. Where applicable, the net investment income tax also applies. The tradeoff for control and limiting beneficiary access to the funds is the potential for a significantly higher tax bill.

5. What else am I missing?

Planning is complex when the beneficiary of an IRA is a trust. For a child with special needs, someone compromised by addiction, someone with a creditor problem, or someone with a similar issue, a trust can provide strong protection for vulnerable beneficiaries. In many other cases, the only concern is that the beneficiary will have immediate access to a large sum of money. In that case, a predetermined beneficiary payout option may allow for some control and easier management.

Establish Yourself as a Trusted Resource

As with many estate-planning issues, there is a lot for a client to review and consider. Helping your clients ask good questions as they work with their legal and tax counsel can steer them toward achieving their estate-planning goals.

²For more information, please refer to the most current federal tax rates.

Additional Resources and Links

[Final Regulations for IRAs Inherited under SECURE Act 1.0 Are Here](#)

[Managing Your Beneficiaries' Inheritances](#)

[Help Offset Taxes for Your Beneficiaries](#)

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