Fwd: Question for you

From: Aaron Hall (aaron@aaronhall.com)

To: simi_27@yahoo.com

Date: Thursday, May 2, 2019, 08:45 AM EDT

Hi Smeeta,

For your reference, here is an email thread from our prior conversations.

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---------- Forwarded message ---------
From: **Aaron Hall**<aaron@aaronhall.com>
Date: Tue, Jan 8, 2019 at 12:41 PM
Subject: Re: Question for you
To: Simi Antony <simi_27@yahoo.com>

Hi Smeeta,

Your daughters will **not owe any taxes** on property they receive from you after your passing. This assumes the property is worth less than the state and federal exemption amounts, which are currently $2.7 million and $11 million respectively.

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On Tue, Jan 8, 2019 at 11:39 AM Simi Antony <simi_27@yahoo.com> wrote:

> So at the time the property comes into the trust it has only 3% down on each property. Each property is collecting rent to pay off the mortgage. I pay taxes on any gains on the property not losses such as paying out the mortgage. So 15 years later the property is paid out. Maye I die timely and now it is time for the girls to inherit the property. DO they not pay any taxes?
>
> Smeeta Antony simi_27@yahoo.com (952) 403-9283(R) (952) 239-9643 (C)
>
> On Monday, January 7, 2019 06:06:21 PM CST, Aaron Hall <aaron@aaronhall.com> wrote:

Hi Smeeta,

On an annual basis, the trust will pay taxes on the income to the trust (e.g. rents).

At the time when the girls get their inheritance, no tax will be due. In other words, the government is entitled to tax the income once (when it comes into the trust), not twice (when the girls get the money).

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On Mon, Jan 7, 2019 at 6:02 PM Simi Antony <simi_27@yahoo.com> wrote:

> Let's Try real estate :
>
> Lets say when I die the trust owns 3 properties. Lets say the mortgages of the properties are paid out when I die. Expenses on the property are the upkeep property. Let's assume the property management company provides service there to ensure of the upkeep of the properties.
>
> Now the girls have completed all the requirements and are ready to inherit the properties. Let's say they make a decision to sell the properties and collect the cash. Does the Trust pay any taxes or do the girls pay any taxes?
>
> Smeeta Antony simi_27@yahoo.com (952) 403-9283(R) (952) 239-9643 (C)
>
> On Monday, January 7, 2019 04:56:58 PM CST, Aaron Hall <aaron@aaronhall.com> wrote:
>
> Hi Smeeta,
>
> I inserted responses in the message below.
>
> **Aaron Hall**
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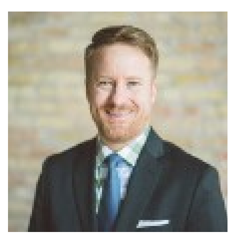
> 
>
> On Sun, Jan 6, 2019 at 5:55 PM Simi Antony <simi_27@yahoo.com> wrote:
>
>> so are u saying then that the IRA Trust also accumulates all the cash like an Unqualified Trust. If so is it not paying taxes at a higher rate if IRA's are liquidated and brought into the trust similar to the Unqualified Trust
>
> Yes. The IRA Trust can accumulate the cash until your daughters fulfill the education requirements.
>
> Yes, the trust will pay taxes at the trust rate, not the individual rate. Thus, there is a tax consequence whenever a trust is used to accumulate funds.

> So if the difference is the stretch out element, here is a question for u. Can the IRA stay as is without being brought into the IRA trust and only RMD's brought into the trust. If I can do that can I do that over the lifetime of the oldest beneficiary?

No. The IRA cannot stay open after your passing. The funds must either go into a trust or into an account in your daughters' names.

> **The next Question**
>
> Let's say I die young hypothetically when I am 50. Clearly my IRA did not have the ability to grow like it would have grown had I died at 70. My children's age when I am 50 and dead will be 16 years. Clearly my children would not have even completed high school. If they want the inheritance they have 2 years of high school, 3 years of a Bachelors Degree, 3 years of a Law School Degree and 2 years of a Cyber School Degree assuming they take no breaks and study back to back.
>
> For these 10 years can the IRA continue to grow in the financial institution that owns it while only drawing out the RMD's for those 10 years and holding it within the trust and paying taxes for it which would be at the higher rate as that of an unqualified trust **unless Qualified Trusts have a lower taxation bracket** in comparison to an Unqualified Trust?

Your IRA cannot stay open after your passing. The funds must either go into a trust or into an account in your daughters' names.

> Now after these 10 years have passed and let's say my children elect to want all the money, clearly all of it will be liquidated and brought into the trust and divided between the 2 beneficiaries. Will the Qualified trust pay a lump sum income tax on the lump sum distribution at a higher tax rate similar to that of an Unqualified Trust or will each girl pay at an individual income tax rate?

I am not sure about this. This would be a better question for a CPA.

> We also want to take a deep dive in taxes for real estate, life insurance which I think behave differently but not until I have wrapped my arms around IRA in terms of trying to save taxes. Paying taxes is something I understood from the get go but if there is any way I can avoid or reduce taxes especially in scenarios where I might die young I want to explore it.
>
> Smeeta Antony simi_27@yahoo.com (952) 403-9283(R) (952) 239-9643 (C)
>
> On Sunday, January 6, 2019 04:57:18 PM CST, Aaron Hall <aaron@aaronhall.com> wrote:
>
> Hi Smeeta,
>
> The IRA Trust would be a “see-through,” accumulation trust. ("See thru" and "look thru" are synonymous terms. They mean the same thing.)

In an IRA Trust, the trustee would control the retirement accounts so the girls would have no access until they fulfill all the education requirements.

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On Sun, Jan 6, 2019 at 4:35 PM Simi Antony <simi_27@yahoo.com> wrote:

I don't think I quite received an answer to the question I asked about the Qualified Trust? That is the see thru or look thru trust?

Is my understanding accurate that an inherited IRA account would be created for each girl and that these accounts would be funded and not the trust. This could be stretched out over time where depending on how little a distribution u want to bring in will be brought into the inherited IRA account for each girl. These individual IRA accounts are income taxed at individual rates and not at Trust rate. What I am not clear on does the Qualified IRA Trust control these accounts where the girls have no access to these inherited IRA accounts till they fulfill all the education requirements.

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On Sunday, January 6, 2019 04:01:07 PM CST, Simi Antony <simi_27@yahoo.com> wrote:

So really there is no difference?

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On Sunday, January 6, 2019 07:51:18 AM CST, Aaron Hall <aaron@aaronhall.com> wrote:

Hi Smeeta,

Here are answers to your questions.

You asked: My revocable living trust today that is unqualified when I die becomes an accumulation bucket for liquidated IRA funds. It does beg question as to whether all ira funds need to be brought into this holding bucket or can it be stretched out over time to avoid a lump sum liquidation and distribution to the trust that will accumulate those funds.

My answer: The law requires a complete distribution shortly after your passing. Only a qualified trust can hold the funds over time, allowing them to be stretched out.

You asked: This trust behaves like a conduit. In other words this trust never holds on to the iRA funds but passes it down to the beneficiary inherited IRA accounts right away. Now in this case because they are inherited IRA accounts owned by beneficiaries do taxes apply? Second can the beneficiaries access the funds right away in these inherited IRA accounts without fulfilling the terms of the IRA trust which will be the same as the revocable living trust that we might want to convert to be irrevocable to minimize transfers and reinvesting of funds.

My answer: That isn't quite right. With your unqualified trust, upon your passing, the retirement accounts would be cashed out, transferred into your unqualified trust. Thus, you would no longer have retirement accounts; the funds are merely cash in a trust. The trust would pay income tax on them (at the higher trust rate). Then the trust would hold the money (along with all your other money and property) until your girls fulfilled the requirements of obtaining their inheritance.

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On Sat, Jan 5, 2019 at 6:18 PM Simi Antony <simi_27@yahoo.com> wrote:

Ok ! One more question on this subject.

My revocable living trust today that is unqualified when I die becomes an accumulation bucket for liquidated IRA funds. It does beg question as to whether all ira funds need to be brought into this holding bucket or can it be stretched out over time to avoid a lump sum liquidation and distribution to the trust that will accumulate those funds.

UnQualfied IRA Trust

This trust behaves like a conduit. In other words this trust never holds on to the iRA funds but passes it down to the beneficiary inherited IRA accounts right away. Now in this case because they are inherited IRA accounts owned by beneficiaries do taxes apply? Second can the beneficiaries access the funds right away in these inherited IRA accounts without fulfilling the terms of the IRA trust which will be the same as the revocable living trust that we might want to convert to be irrevocable to minimize transfers and reinvesting of funds.

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On Friday, January 4, 2019 08:31:16 PM CST, Aaron Hall <aaron@aaronhall.com> wrote:

Hi Smeeta,

Perhaps I can summarize. There are two types of trusts:

1. Unqualified. This is the type of trust you have and it covers **everything except unliquidated retirement funds**. This trust lets you spend the money now and do whatever you want with your property as though you had no trust.

2. Qualified. This also goes by the names of "look-through trust" or “see-through trust. This is only for **retirement funds**. This trust has strict requirements to comply with rules and regulations regarding retirement accounts.

I have many clients with both types of trusts. It depends on their goals.

You have a few choices:

A. Establish an IRA Trust
B. Keep your existing trust and liquidate your retirement accounts (which has tax consequences) to move the funds into your trust upon death (this was the plan we talked about at the library)
C. Let your daughters have access to the money before they fulfill your requirements (schooling, etc.)

If you want to dig deep into the law and its history, here are some resources:

1. https://www.law.cornell.edu/cfr/text/26/1.401%28a%29%289%29-4
2. https://www.govinfo.gov/content/pkg/CFR-2010-title26-vol5/pdf/CFR-2010-title26-vol5-sec1-401a9-4.pdf
3. https://ultimateestateplanner.com/wp-content/uploads/2014/07/IRSRulingValidatesIRAInheritanceTrust_Keebler2005.pdf
4. http://files.ali-cle.org/thumbs/datastorage/lacidoirep/articles/EPCMJ_EPCMJ0310-COLEMAN_thumb.pdf

However, I think those links will create more questions than answers.

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On Fri, Jan 4, 2019 at 7:19 PM Simi Antony <simi_27@yahoo.com> wrote:

> The part that throws me is why do I need a separate Trust. Pg 15 simply says for a trustee to open an inherited IRA account in the name of the original account holder.
>
> As far the number goes here is an article I got it from.
>
> There is also another article that talks about insurance proceeds and how it is exempt of taxes when paid directly to the beneficiary. However since we are bringing it into the trust in the event I own one I believe that there is an attribute that is considered which is the size of the estate and as per this article it seems like of the size of the estate is under 11 million then it may not be subject to taxes.
>
> Smeeta Antony simi_27@yahoo.com (952) 403-9283(R) (952) 239-9643 (C)
>
> On Friday, January 4, 2019 06:48:46 PM CST, Aaron Hall <aaron@aaronhall.com> wrote:
>
> Hi Smeeta,
>
> The section you reference on page 15 is under the header of "Qualified trusts only." A qualified trust would be the IRA Trust I mentioned. In other words, that option is only available if you establish an IRA Trust.
>
> You mentioned an exemption for $406,750. There is no exemption in your circumstances. Where did you get that number from?
>
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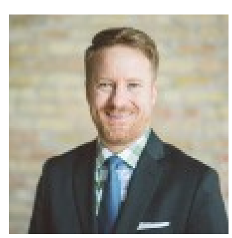
> 
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> On Fri, Jan 4, 2019 at 6:10 PM Simi Antony <simi_27@yahoo.com> wrote:

I will pour over every one of these links but what do u think about Pg 15 of the Charles schwab document and is reflected thru the document in other places as well where u create an inherited IRA account in the name of the original account holder which would be me. So upon my death, my trust would need to be irrevocable, my special co-trustee would create an inherited IRA account in my name and have that account inherit all my IRA's which is devoid of tax triggering events. RMD's can be distributed to a mutual fund that the trust would pay capital gains over or distribute to the beneficiaries since we are not talking big dollars spilt between the 2 girls.

Now comes time when we have to distribute after the girls meet the qualifying criteria. Since this is now an individual inherited IRA am I now exempt of the first $406,750 and need to pay taxes on the remainder??

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On Friday, January 4, 2019 05:34:17 PM CST, Aaron Hall <aaron@aaronhall.com> wrote:

Hi Smeeta,

An IRA trust is often called a "look-through trust" or “see-through trust.” Here are a few articles explaining the issues involved:

- https://www.lordabbett.com/en/perspectives/retirementperspectives/designating-trust-as-ira-beneficiary.html
- https://www.kitces.com/blog/qualifying-a-see-through-trust-as-an-ira-designated-beneficiary-conduit-or-accumulation/
- https://thewiseinvestorgroup.com/Wise-Investor-Files/Public/PDF_Files/Featured-Articles/Naming-a-Trust-as-Beneficiary.pdf

The bottom line is that there is one type of trust for retirement accounts (IRA trust, "look-through trust," or “see-through trust”) and another type of trust for all other assets. The trust we prepared for you can handle all of your assets, including liquidated retirement accounts. However, if you want to control a retirement account that is not liquidated, we would need an IRA trust.

Have a nice weekend!

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On Fri, Jan 4, 2019 at 3:04 PM Simi Antony <simi_27@yahoo.com> wrote:

> I would love that if u could. One was from Charles Schwab which is where I hold all my retirement accounts.
>
> Smeeta Antony simi_27@yahoo.com (952) 403-9283(R) (952) 239-9643 (C)
>
> On Friday, January 4, 2019 11:58:47 AM CST, Aaron Hall <aaron@aaronhall.com> wrote:
>
> Hi Smeeta,

Online research can create a lot of confusion. Some articles relate to other parts of the country, other circumstances, or old laws. From my experience, you won't find clarity online.

If you have specific questions, I can point you to credible online articles that address your questions.

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On Fri, Jan 4, 2019 at 11:55 AM Simi Antony <simi_27@yahoo.com> wrote:

> Let me think about it some as these articles say the opposite
>
> Sent from Yahoo Mail for iPad
>
> On Friday, January 4, 2019, 11:31 AM, Aaron Hall <aaron@aaronhall.com> wrote:
>
> Hi Smeeta,
>
> Your current trust takes care of all of your assets EXCEPT the retirement accounts that are not liquidated after your passing. If you want to keep retirement accounts in a trust after your passing, an IRA trust is needed.
>
> Does that help?
>
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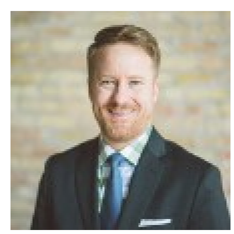
> 
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> On Fri, Jan 4, 2019 at 11:25 AM Simi Antony <simi_27@yahoo.com> wrote:
>
> > Not without understanding why my will or my trust agreement cannot say that the funds in the inherited ira cannot be distributed till the children have met the terms of the trust agreement. In fact that would be the whole purpose of the trust.
> >
> > Sent from Yahoo Mail for iPad
> >
> > On Friday, January 4, 2019, 8:44 AM, Aaron Hall <aaron@aaronhall.com> wrote:

Hi Smeeta,

Great questions. There is only one way to fully control your retirement funds after your passing and minimize the tax impact: an IRA trust. We talked a little about this, but due to the additional cost, I think we decided to stay focused on your main trust for the time being. If you would like to fully control your retirement funds after your passing and minimize the tax impact, I would be happy to work with you on designing the IRA trust. The cost would be under $5,000. Is this something you would be interested in?

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On Thu, Jan 3, 2019 at 9:16 PM Simi Antony <simi_27@yahoo.com> wrote:

> I was thinking about the Retirement Funds that need to be brought into the trust upon my death which will trigger an income tax distribution.
>
> I have been reading a lot about Retirement Accounts
>
> **Option 1**
>
> 1) we could set up inherited IRA accounts for each beneficiary.
> 2) So each girl inherits a 50% share from my IRA's
> 3) They would need to collect their RMD's to avoid penalty
> 4) The KEY QUESTION is can the Trust govern these accounts based on my written instrument and not have them touch the account other than collecting the RMD's till they have satisfied the education requirements.
> 5) MY understanding is that if they satisfy the education requirements, and they choose to take a lum sum distribution then they are able to take the first $406,000 tax free which is huge.
> 6) The next KEY QUESTION that needs to be answered is that if inherited IRA's are open for each beneficiary and let's say they don't complete the education requirements, what happens If I WANT TO DISTRIBUTE IT TO the girls and I want for some misfortunate adult that might want that degree.
>
> **Option 2**
>
> 1) The executor opens an inherited IRA account in my name. So essentially when the trust inherits the money that does not equal a triggering event for taxes rather

the funds flow into an inherited IRA account under my name.
2) Clearly RMD's will need to be taken out and sent to the beneficiaries.
3) There will not exist a inherited retirement accounts for each beneficiary.
4) Rather the Trust will distribute the funds to the children based on certain qualifying criteria.
5) I am not a big fan of this option, KEY QUESTION _ I should qualify for a $406,000 tax exempt for me as an individual when I want to disperse the funds out, except in this case it is one individual as whereas in Option 1 there are 2 individuals.
6) Also in this case can inherited accounts for the girls be opened when the trust is ready to distribute funds from the individual inherited retirement account I own to the girls since they are beneficiaries of the trust. MY GUT IS NO since it has already been brought into the trust by opening an inherited account in my name. This plan gives my individual IRA and the trust more control i.e. assuming a Trust cannot govern independent inherited IRA accounts for the girls but u loose on tax exemptions.

I am enclosing a few articles - let me know what u think.

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