

SHOULD YOU LEAVE YOUR IRA TO A CHILD?



Can a child inherit an IRA? The answer is yes, though they cannot legally own the IRA and its invested assets. Until the child turns 18 (or 21, in some states), the inherited IRA is a custodial account, managed by an adult on behalf of the minor beneficiary.^{1,2}

IRA owners who name minors as beneficiaries have good intentions. Their idea is to “stretch” a large Roth or traditional IRA. Distributions from the inherited IRA can be scheduled over the (long) expected lifetime of the young beneficiary, with the possibility that compounding will partly or fully offset them.²

Those good intentions may be disregarded, however. When minor IRA beneficiaries become legal adults, they have the right to do whatever they want with those IRA assets. If they want to drain the whole IRA to buy a Porsche or fund an ill-conceived start-up, they can.²

How can you have a say in what happens to the IRA assets? You could create a trust to serve as the IRA beneficiary, as an intermediate step before your heir takes possession of those assets as a young adult.

In other words, you name a trust as the beneficiary of your IRA, and your child or grandchild as a beneficiary of the trust. When you have that trust in place, you have more control over what happens with the inherited IRA assets.²

The trust can dictate the how, what, and when of the income distribution. Perhaps you specify that your heir gets \$10,000 annually from the trust beginning at age 30. Or, maybe you include language that mandates that your heir take distributions over their life expectancy. You can even stipulate what the money should be spent on and how it should be spent.²

A trust is not for everyone. The IRA needs to be large to warrant creating one, as the process of trust creation can cost several thousand dollars. No current-year tax break comes your way from implementing a trust, either.²

In lieu of setting up a trust, you could simply name an IRA custodian. In this case, the term “custodian” refers not to a giant investment company, but a person you know and have faith in who you authorize to make investing and distribution decisions for the IRA. One such person could be named as the custodian; another, as a successor custodian.²

What if you designate a minor as the beneficiary of your IRA, but fail to put a custodian in place? If there is no named custodian, or if your named custodian is unable to serve in that role, then a trip to court is in order. A parent of the child, or another party who wants guardianship over the IRA assets, will have to go to court and ask to be appointed as the IRA custodian.²

You should also recognize that the Tax Cuts & Jobs Act reshaped the “kiddie tax.” This is the federal tax on a minor’s net unearned income. Required minimum distributions (RMDs) from inherited IRAs are subject to this tax. A minor’s net unearned income is now taxed at the same rate as trust income rather than at the parents’ marginal tax rate.^{3,4}

This is a big change. Income tax brackets for a trust or a child under age 19 are now set much lower than the brackets for single or joint filers or heads of household. A 10% rate applies for the first \$2,550 of taxable income, but a 24% rate plus \$255 of tax applies at \$2,551; a 35% rate plus \$1,839 of tax, at \$9,151; a 37% rate plus \$3,011.50 of tax, at \$12,501 and up.^{3,5}

While this is a negative for middle-class families seeking to leave an IRA to a child, it may be a positive for wealthy families: the new kiddie tax rules may reduce the child’s tax liability when compared with the old rules.⁴

One last note: if you want to leave your IRA to a minor, check to see if the custodian holding your IRA allows a child or a grandchild as an IRA beneficiary. Some custodians do, while others do not.¹

Have a great weekend!

Source: MarkingPro

Golf Tip of the Week



Is “C Posture” Wrecking Your Swing?

Posture is critical to developing an effective and consistent swing. “C posture,” a curving of the upper back and shoulders from poor posture during daily activities (like sitting in front of a computer) can actively prevent you from having a free and athletic swing. Here’s a quick way to fix your posture:

Actively reset your posture by standing up straight and pinching your shoulder blades together. Bend at the waist and set up a swing. Ask a partner to check your back for rounding. Repeat this to feel how good posture should feel.

Tip courtesy of Doug Hammer, PGA / Golf Tips Magⁱ

Recipe of the Week



Poached Huevos Rancheros

Make this fast breakfast dish to use up Tex-Mex leftovers or on its own.

Serves 4

Ingredients

1 16-ounce jar salsa (2 cups)
1 15.5-ounce can black or pinto beans, drained and thoroughly rinsed
4 large eggs
Kosher salt and black pepper
2 green onions, white and green parts sliced
1/4 cup chopped fresh cilantro, thoroughly rinsed
4-8 small flour or corn tortillas, warmed
1/2 cup low-fat sour cream
2 tablespoons fresh lime juice

Directions:

1. Heat a large heavy-bottomed skillet over medium-high heat. Add the beans and salsa and bring to a simmer. If you have leftover chili or taco filling, add it to the pan now.
2. Using a spoon, make four wells or spaces in the bean mixture. Crack an egg into each well. Sprinkle each egg with salt and pepper. Cover the pan and allow the eggs to cook over medium heat for 3-5 minutes for set whites and runny yolks. If you prefer firmer eggs, allow them to cook longer.
3. Divide the mixture between four plates and sprinkle with lime juice, cilantro, and green onions. Serve with the tortillas and sour cream.

Recipe adapted from | Realsimple.comⁱⁱ

Health Tip of the Week



Exercise is the Best Thing You Can Do For Your Brain

The research is clear: Regular exercise is the best way to keep your brain sharp and healthy. While scientists aren't clear on the direct relationship between exercise and brain health, one possibility is the way that exercise boosts blood flow to the brain. Exercise can also help

reduce stress, control blood sugar, lower the risk of strokes, and improve balance. It's a win-win for your body.

The good news is that it's never too late to start an exercise program for brain health. Talk to your physician and look for fitness options that seem interesting. Many local gyms offer classes geared toward beginners and older folks. Experts recommend at least 2-1/2 hours of brisk exercise— like a fast-paced walk—each week.

Tip courtesy of AARPⁱⁱⁱ

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- 2 - kiplinger.com/article/retirement/T021-C000-S004-pass-an-ira-to-young-grandkids-with-care.html [5/17]
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ⁱ <http://www.realsimple.com/food-recipes/browse-all-recipes/skillet-poached-huevos-rancheros>

ⁱⁱ <http://www.golftipsmag.com/instruction/full-swing/the-swing-and-body-connection/>

ⁱⁱⁱ <http://www.aarp.org/health/brain-health/info-05-2013/exercising-tips-for-brain-health.html>