



Trusts, Estates,
and Gift Planning

Strategic financial
planning for your
Cornell philanthropy

Cornell University
The SECURE Act of 2019

giftplanning.giving.cornell.edu

There are a number of laws that may influence charitable giving, and that may have an impact on assets and methods used to make those gifts. Staying current on these laws is essential to making smart gift plans. Late in December, the SECURE Act of 2019 became law and changed some long-standing retirement and estate planning practices. Many components of this law are minor adjustments to various rules and regulations. Most of the changes are quite welcome, such as expanding retirement plan access to more part-time workers and delaying the age one must begin taking Required Minimum Distributions (RMDs) from their IRAs from 70.5 to 72, a rule that had not changed since the introduction of IRAs in 1974. Perhaps the most influential change, however, is the removal of a provision referred to as the "Stretch IRA".

Important context

Inheriting an IRA is not analogous to inheriting a piggy bank or another valuable asset where a person simply acquires an item and assumes ownership. Treating an inherited IRA as a one-time windfall of cash is a very expensive proposition because distributions from an IRA are taxed as income to an individual recipient at their highest marginal tax bracket.

Prior to the new law

Beneficiaries could take distributions over their lifetime or the lifetime of the IRA owner depending on the age of the IRA owner at death. This allowed for extended tax-deferred growth and stretched the taxation of the account value over many years, thus the term "Stretch IRA".

Under the new law

The SECURE Act eliminated the "stretch" IRA for most non-spousal beneficiaries. Non-spousal IRA beneficiaries now have to withdraw the entire account by the end of 10 years. This major change has significant tax implications to those inheriting IRAs from parents or others, many of whom may inherit them during peak earning years with a significantly increased tax burden as a result.

Strategies to Consider

Philanthropists should begin to think differently about how to use IRAs for charitable and individual beneficiaries under these new rules. Here are four ideas to consider:

- A Qualified Charitable Distribution (QCD) allows IRA owners who are 70.5 or older to direct distributions up to \$100,000 per year to Cornell and avoid taxation without the need for a tax deduction or itemized tax return. This has been a significant area of growth for charitable giving in recent years and this new law will accelerate this trend.
- Name Cornell as the beneficiary of IRAs and leave other types of capital assets to individual heirs. IRAs are the best asset to support charitable interests when maximizing tax efficiencies of an estate plan. In fact; it is the only way to avoid taxation on IRA distributions.
- Name a Charitable Remainder Trust (CRT) as the beneficiary of the IRA. This creates what we call a "Charitable Stretch IRA". The IRA would fund a CRT at the death of the IRA owner that in turn would make regular distributions to named beneficiaries with the remaining balance passing to Cornell.
- Wealth Replacement. This strategy attempts to provide the elusive objective of "having your cake and eating it too". The goal is to increase the overall size of the estate by "replacing" assets earmarked for Cornell with a life insurance policy on the IRA owner (subject to insurability and cost-effectiveness). Cornell would receive otherwise taxable assets while individual beneficiaries receive life insurance proceeds tax-free.

Smart gift plans using one or any combination of the above methods may provide donors with an efficient and effective strategy to maximize impact and minimize taxation.

Staff in the Office of Trusts, Estates, and Gift Planning can help you and your financial advisors review options for financial tools and assets to give. Contact us at **800.481.1865** or via email: gift_planning@cornell.edu

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Cornell's Office of Trusts, Estates, and Gift Planning

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