How Your IRA Can Benefit Both Your Heirs and Charity

Do you want to use your IRA to help a charity, but also benefit your heirs? Instead of leaving your IRA directly to your children, you can leave it to a charitable remainder unitrust (CRUT) while still benefiting your children. With rules about inherited IRAs potentially in flux, this may be an attractive estate planning option.

Currently, when a non-spouse [inherits an IRA](), the beneficiary can choose to "stretch" out the IRA by taking distributions over his or her lifetime and passing what is left onto future generations. This allows the money to grow tax-deferred over the course of the beneficiary's life and to be passed on to his or her beneficiaries.

While a stretch IRA can be a good deal for your beneficiaries, it isn't always taken advantage of. If the inherited IRA isn't retitled properly, the IRA will have to be liquidated. In addition, it may not be an option for much longer because both Congress and President Obama have proposed changing the law to limit distributions to non-spousal beneficiaries to five years.

Instead of leaving an IRA directly to your heirs, an alternative is to leave the IRA to a CRUT. A [CRUT]() is an irrevocable trust that provides the beneficiaries with income for a set number of years or for life. The beneficiaries receive a set percentage from the trust during their lifetime. When they die, the remainder in the trust goes to the charity (or charities) of your choice.

To name a CRUT as the beneficiary of an IRA, you must first put a provision in your will creating the CRUT. This needs to be done by an attorney. Then you can change the beneficiary on

the IRA to the CRUT. While your heirs may receive less money overall than if they had stretched out the IRA, they should receive more money than if they were required to cash out the IRA after five years. Naming a CRUT as a beneficiary on an IRA also has positive estate tax implications. The estate will receive a deduction based on the remainder interest of the CRUT.