

BIAT[®] — BENEFICIARY INCOME ACCUMULATION TRUST

What BIAT[®] Means for Your Family's Wealth

If your estate plan includes a trust, the way that trust is structured can make a substantial difference in how much of your family's wealth actually reaches your heirs. Two specific opportunities are worth understanding: the first affects families whose trusts are named as retirement plan beneficiaries (e.g., IRAs, 401(k)s, 403(b)s, etc.; hereinafter "IRA" or "Qualified Retirement Account"), and a newer development under the One Big Beautiful Bill Act that affects how investment trusts of almost all kinds are taxed. The analyses below walk through both scenarios with plain-language explanations and side-by-side numbers, so you can see exactly what is at stake for your family.

PART 1 — INHERITED QUALIFIED RETIREMENT ACCOUNT TRUSTS

THE CORE QUESTION

Where Does Trust Income Get Taxed?

When the SECURE Act took effect in 2020, it eliminated the stretch IRA for most beneficiaries. A non-eligible designated beneficiary (typically an adult child) must now fully withdraw an inherited IRA within ten years. Every dollar distributed from non-Roth accounts is usually ordinary income, taxed in the year it is received.

For a trust that holds an inherited retirement plan, that creates a significant cost. Trusts reach the top federal income tax bracket of 37% on income above just \$16,000. A standard accumulation trust absorbs every distribution at those compressed rates. BIAT is structured differently. Under Section 678(a) of the Internal Revenue Code, the beneficiary, not the trust, is treated as the owner of the income, so it is taxed at the beneficiary's individual rate, which is almost always substantially lower.

On a \$1,000,000 IRA with a married-filing-jointly beneficiary carrying \$200,000 of their own income, the difference over ten years is as follows.

SIDE-BY-SIDE COMPARISON — \$1,000,000 IRA — YEAR 10

Standard Accumulation Trust versus BIAT

| MEASURE | STANDARD ACCUM. TRUST | BIAT |
|----------------------------------|-----------------------|------------------------|
| Total Income Tax Paid (10 Years) | \$611,568 | \$439,918 |
| Effective Tax Rate | 34.48% | 24.06% |
| Final Estate Value at Year 10 | \$1,162,218 | \$1,388,844 |
| Income Tax Reduction | — | \$171,650 saved |
| Additional Wealth Preserved | — | \$226,626 more |

Model assumptions: \$1,000,000 IRA at death (2026), 7% pre-tax annual growth, non-EDB beneficiary (10-year rule), married filing jointly with \$200,000 pre-distribution taxable income, Ohio state income tax at 2.75%. SECURE Act RMD rules applied in years 1–9 with full cleanout in year 10. BIAT distributions limited to tax reimbursement only.

A Two-Horizon Advantage

Ongoing Income Tax — Years 1 Through 10

A standard accumulation trust is taxed at the compressed trust bracket (37% on income above \$16,000) on every dollar of IRA distributions it retains. BIAT shifts that income to the beneficiary's individual rate. On a \$1,000,000 IRA, that rate difference reduces the total tax burden by \$171,650 over the ten-year mandatory distribution period and leaves the estate with \$226,626 more at the end of year ten.

Standard Trust — Total Tax: **\$611,568**

BIAT — Total Tax: **\$439,918**

Tax Savings: **\$171,650**

Effective Rate: Standard vs. BIAT: **34.48% vs. 24.06%**

Illinois Estate Tax Bypass — Years 10 Through 30

Assets distributed outright from a standard trust become part of the beneficiary's taxable estate. For Illinois residents, that means exposure to state estate tax at the top marginal rate of approximately 15% when the next generation passes. BIAT structured as a GST-exempt dynasty trust keeps assets outside the beneficiary's estate entirely and the Illinois estate tax never applies.

Standard Trust — Year 30 Projected Value: **\$3,083,711**

Standard Trust — IL Estate Tax Exposure: **\$462,557**

BIAT — IL Estate Tax Exposure: **\$0 (bypassed)**

BIAT — Year 30 Projected Value: **\$3,685,016**

What these numbers mean in practice: On a single \$1,000,000 IRA, the combination of lower income taxes over ten years and the elimination of Illinois estate tax exposure over thirty years produces a projected total family benefit exceeding \$260,000 - without a single additional distribution to the beneficiary, and without altering the original estate plan's intent to protect and preserve inherited assets.

PART 2 — NON- QUALIFIED RETIREMENT ACCOUNT INVESTMENT TRUSTS AND THE NEW §68 TAX WRINKLE

A NEW DEVELOPMENT UNDER THE ONE BIG BEAUTIFUL BILL ACT

Why Standard Distributing Trusts Now Face a Double-Tax Problem

The One Big Beautiful Bill Act, signed July 4, 2025, created a separate new income tax problem for trusts, no matter what type of assets they hold. Under prior law, when a standard trust distributed income to a beneficiary, it could deduct the full distribution and zero out its own taxable income, sometimes avoiding the worst of the compressed tax brackets noted above. On May 28, 2026, the Joint Committee on Taxation issued a new Congressional interpretation of the OBBBA that has taken the position that a trust's distribution deduction is now subject to a haircut of approximately 5.4%. The result is that a slice of income is left to be taxed at the trust level and then taxed again at the beneficiary level on the full distribution. The same dollars are taxed twice!

BIAT eliminates this new problem as well. Because a BIAT's beneficiary is deemed the income taxpayer of the trust, no distribution deduction is needed or taken in the first place, leaving the new limitation nothing to reduce. The income is reported once, by the beneficiary, at individual rates.

THE NON-QUALIFIED RETIREMENT ACCOUNT NUMBERS

\$500,000 Investment Trust — Current Law versus BIAT

Non-IRA Investment Trust — The Double-Tax Problem and How BIAT Avoids It

On a trust with \$500,000 of distributable income (half ordinary income, half long-term capital gain or qualified dividends) the new limitation traps \$26,062 of income in a double-tax overlap. The trust is separately taxed on that amount, and the beneficiary still reports the full \$500,000. BIAT avoids this by taking no distribution deduction. The income is reported once, by the beneficiary, at individual rates. The result: \$5,633 in annual tax savings that recurs every year the trust holds and distributes income (and even more if we compare to a trust where all the income is not distributed, which is common).

Income trapped in double taxation — Standard Trust: **\$26,062**

Income trapped in double taxation — BIAT: **\$0**

Total incremental federal tax — Standard Trust (current law): **\$128,036**

Total incremental federal tax — BIAT: **\$122,403**

Annual tax savings with BIAT: **\$5,633**

What this means over time: The \$5,633 annual difference recurs every year the trust holds and distributes income. On a larger trust the figure scales proportionally: a trust with \$2,000,000 of annual distributable income would face a haircut exceeding \$22,000 per year under a standard structure. Beyond the dollar amount, the qualitative problem is equally significant: a standard distributing trust now causes the same income to be taxed twice simultaneously, a result that no amount of distribution timing can correct. BIAT avoids this not by distributing differently, but by removing the deduction from the equation altogether.

Non-IRA model assumptions: Complex non-grantor trust; \$500,000 of taxable income equal to distributable net income, of which \$250,000 is ordinary income and \$250,000 is long-term capital gain or qualified dividend income; married-filing-jointly beneficiary with \$200,000 of other taxable income; 2026 federal rate schedules per Rev. Proc. 2025-32; IRC §68 threshold of \$16,000; all trust income assumed to be net investment income. Total tax figures represent incremental federal income tax and NIIT attributable to the trust income only. Analysis prepared by Edwin P. Morrow III, J.D., LL.M., MBA, CFP®, CM&AA®.

Is Your Current Plan Capturing This Advantage?

In both scenarios, the rate at which trust assets grow matters considerably. Higher-growth assets, including closely held business interests, real estate, and digital assets, generate larger taxable distributions under any trust structure. The question of how those distributions are taxed grows more consequential as the asset base grows.

Federal tax law is subject to change, and the rates used in this analysis reflect current law. Future legislative adjustments may alter the specific dollar figures above but are unlikely to eliminate the structural income tax advantage BIAT provides relative to a standard accumulation trust. Planning for that advantage now captures compounding growth in the interim.

If your estate plan includes a trust as a retirement plan beneficiary, or if you have an existing trust with no provisions to shift income tax to a beneficiary, we encourage you to schedule a review. Updating beneficiary designations and restructuring distribution provisions are often the most financially meaningful changes an existing estate plan can receive, providing significant income tax savings while protecting assets far more effectively than an outright bequest.

IMPORTANT DISCLOSURES

The IRA figures in Part 1 are derived from a financial model prepared by Edwin P. Morrow III, J.D., LL.M., MBA, CFP®, CM&AA® of Kelleher + Holland, LLC, using 2026 federal and Illinois tax law parameters. All IRA projections assume a \$1,000,000 traditional (pre-tax) IRA, 7% pre-tax annual growth, a non-eligible designated beneficiary subject to the 10-year rule under the SECURE Act and Treas. Reg. §1.401(a)(9)-5 (final, July 2024), a married-filing-jointly beneficiary with \$200,000 of pre-distribution taxable income, and Ohio state income tax at 2.75%. The 30-year estate tax projections assume a net post-Year-10 growth rate of 5%, an Illinois marginal estate tax rate of 15%, and a beneficiary taxable estate already exceeding the Illinois exemption amount.

The non-IRA figures in Part 2 reflect the Joint Committee on Taxation's interpretation of IRC §68 as set forth in footnote 102 of its General Explanation of Pub. L. 119-21 (JCS-1-26, May 2026). That interpretation is contested and is not binding authority; both the AICPA and the NYSBA Tax Section have requested Treasury guidance, and a technical correction or regulation could alter the analysis. The non-IRA figures should be confirmed against any guidance issued before reliance.

Individual results will vary based on IRA balance, trust size, asset composition, growth rate, beneficiary income, state of residence, and applicable tax law at the time of distribution. This material is provided for informational purposes only and does not constitute legal or tax advice. Kelleher + Holland, LLC represents clients in estate planning, trust administration, tax, and related matters. Nothing in this document creates an attorney-client relationship. BIAT® is a registered trademark of Kelleher + Holland, LLC.