

The Shocking Truth About Taxes & Retirement

**WHO WILL INHERIT YOUR IRA?
YOUR LOVED ONES OR UNCLE SAM?**



What You Don't Know About Inherited IRAs Will Shock You!

Brought to you by
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WHO WILL INHERIT YOUR IRA?

Nancy had worked hard to save as much as possible for her retirement. She had high hopes of having enough to cover her own living expenses and to leave a nice inheritance for her children. She invested most of her money in IRAs, believing estate taxes were all that her children would potentially owe when they received their inheritance. She couldn't have been more wrong.

When Nancy passed away, her kids inherited her IRAs and cashed them out immediately. However, they were shocked when their tax preparer informed them that they not only owed estate taxes but income taxes as well on the inheritance! To make matters worse, the additional income catapulted them into the highest tax bracket, resulting in an even higher percentage of the inheritance going to Uncle Sam. In the end, Nancy's children were able to keep less than half of the money she had hoped they would receive.

The Traditional IRA Tax Trap

Most people know there will be taxes due upon inheritance, but what they don't realize is that the largest tax their beneficiaries may ever face is the income tax due on inherited IRAs. The entire accumulated amount; principal, interest and gains in a traditional IRA are fully income taxable upon distribution. So, a "large inheritance" may not end up being as large as your

beneficiaries had hoped, once Uncle Sam takes his share. As you can see from Nancy's story, understanding the potential tax ramifications of passing on IRAs to your beneficiaries is an essential first step toward maximizing your own retirement assets and the legacy you leave for your loved ones. Below is additional information to help get you started.

You've worked hard to earn your nest egg. Take the time to protect and preserve your efforts and to maximize your legacy.





Inheritance Options For Spouses

Spouses have the following options available upon inheritance of an IRA:

- ››› Treat the IRA as their own and designate themselves as the account owner.
- ››› Treat the IRA as their own by rolling it over into their own IRA or other qualified plan.
- ››› Act as the IRA beneficiary

Spouses are the only beneficiaries who are allowed to roll an inherited IRA into their own IRA and postpone distributions until they reach age 70 ½. This can be very advantageous and mean a much higher inheritance

value than other forms of distribution. Just be careful of the 10 percent early withdrawal penalty if the rollover occurs prior to 59 ½. In many cases, spousal transfers offer huge tax advantages.

Inheritance Options For Non-Spouse Beneficiaries

The biggest difference between spousal and non-spousal IRA inheritances is that a non-spousal beneficiary cannot treat the IRA as their own and make any contributions or rollovers to the IRA. But, non-spousal beneficiaries can make a trustee-to-trustee transfer to another IRA as long as the new IRA is opened and preserved in the name of the deceased IRA owner for the benefit of the non-spousal beneficiary. A big concern for non-spousal inheritances, since they can't treat the IRAs as their own, is to make sure

the required minimum distribution (RMD) is taken from the inherited IRAs. Use the life expectancy tables contained in publication 590 on the IRS website to calculate the required minimum distribution that must be taken to avoid paying a 50 percent penalty on the amount that wasn't withdrawn in the required manner. Of course, more than the RMD may be taken out of the IRA, but these amounts are also considered taxable income and will increase the income tax owed by the beneficiary.

Why It's Important To Name Your Beneficiaries

A very important initial step in helping your beneficiaries with the inheritance and distribution of your IRAs is to make sure the beneficiaries are named and on file with the IRA custodian. Be specific. Individually name both the primary and contingent beneficiaries of each IRA. By naming both primary and contingent beneficiaries, the primary beneficiary has the option to disclaim the IRA and pass it down to the contingent beneficiaries. Conversely, if there are no beneficiaries on file

with the custodian, the heirs are subject to the distribution policy of the custodian. That may pose large problems, as the money may not go where you intended.

Tip: Keep your beneficiary status up to date on each IRA you own. For example, if you have your children named as primary beneficiaries and all grandchildren named as contingent beneficiaries of an IRA, add additional grandchildren as new contingent beneficiaries when they are born.

NANCY'S HEIRS

What Could Have Nancy's Heirs Done to Minimize Their Taxes?

First, they shouldn't have done anything with the IRA until they spoke with a financial professional. Once the IRA is cashed out, the tax ramifications begin. There are no do-overs! **Second**, they needed to strategically decide the best way to take the money. Is it best to take a lump sum or to lessen the tax blow by deferring the withdrawals?

Third, they needed to make sure they looked at the tax ramifications of withdrawing the money. Would a withdrawal put them into a higher tax bracket? Could it affect Social Security income qualification? There are many short-and long-term questions that need answers before taking any money from the IRA.



THE NEXT STEPS

If you're planning your estate, take the opportunity to learn from Nancy's mistakes. Below are some important next steps:

- ››› Meet with a qualified financial advisor to review your qualified retirement accounts. If you have money in IRAs, find out if that's the best strategy. There may be tax-free investment options that don't require your heirs to pay taxes on accumulated earnings.
- ››› Diligently name your IRA beneficiaries.
- ››› Educate your loved ones. Take the time to inform your spouse or children about the tax ramifications of any future inheritance.

You've worked hard to earn your nest egg. Now, take the time to protect and preserve your efforts and to maximize your legacy. Taking proactive steps today could yield thousands of dollars of difference for your loved ones tomorrow.



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