



# IF YOU WANT YOUR CHILDREN TO PAY ZERO TAXES WHEN THEY INHERIT YOUR IRA, HERE'S HOW:

By Bill Monte

Legacy planning, from a financial perspective, focuses on how you can most effectively and efficiently maximize the passing of your assets at death to your chosen beneficiaries by negating any form of taxes that those same beneficiaries will have to pay when that inheritance occurs.

For those who have accumulated large Traditional IRA account balances over their working years and are now nearing or already in retirement, you have enjoyed the ability to defer income taxes on all the growth that those type of retirement accounts have experienced each year.

Once a person reaches the year that they turn 70 ½ years of age, the IRS begins forcing the IRA account holder to begin taking what's called Required Minimum Distributions or RMD's. This represents the minimum amount that must be removed from the account each year. You can take more, but not less and the amount that comes out of your Traditional IRA is added to your taxable income for that year.

The largest income tax liability that is created, however, occurs when the Traditional IRA account holder passes away and it is inherited by a "non-spouse" beneficiary. When that occurs, that non-spouse beneficiary (ex. children and/or grandchildren) receives that Traditional IRA balance fully taxable, paid at the beneficiary's combined Federal and State income tax bracket.

As the tax law stands today, non-spouse IRA beneficiaries have the ability to "Stretch" the receipt of that IRA inheritance over their own remaining life expectancy, but I believe the Stretch IRA capability is on borrowed time. There has been recently released proposed legislation to severely limit the Stretch IRA forcing the non-spouse beneficiary to remove every penny from the Inherited IRA over only a 5-year period, greatly exacerbating the income tax liability to those beneficiaries.

This is where the IRA Maximization planning strategy utilizing life insurance comes into the picture and when properly implemented, can create a dramatically better situation for the non-spouse beneficiaries, allowing them to fully escape the Federal and State income taxes that will be due at that time when they inherit your Traditional IRA assets.

Permanent life insurance can be very effectively used as a means to create a substantial tax-free legacy for the chosen beneficiaries of your estate. Using life insurance for this purpose accomplishes so many positive things, the 4 main benefits being:

The amount of money that you put into the life insurance legacy plan over your lifetime is substantially less than the much larger life insurance amount that your chosen non-spouse beneficiaries will receive 100% tax-free at your eventual passing.

At your passing, it allows your Estate to recover and be paid back ALL of the income taxes that you paid on the withdrawals that you took from your Traditional IRA over your lifetime (both pre and post RMD).

At your passing, it also allows you to recover and be paid back ALL the income taxes that you paid on your Social Security income over your lifetime.

Lastly, it gives your children, as the ultimate beneficiaries of your Estate, the tax-free capital to help them pay the substantial income taxes that will be due (at THEIR Federal and State income tax brackets)

allowing your Traditional IRA to pass to them completely intact, avoiding erosion of your estate.

For those who have sources of discretionary income (non-needed RMD income being a common choice) and/or have any dormant, non-needed investment assets that are held outside of the Traditional IRA to use to fund the life insurance Legacy plan with, then this is a planning strategy that really should be fully explored.

The main caveat to be considered is that the funding of the plan (whether it be with one lump sum only or with deposits made annually) cannot have a negative effect on the individual or married couple's desired retirement standard of living that they are currently enjoying. If it does, then this planning strategy is not appropriate and should not be implemented.

If you would like to learn more about the IRA Maximization planning strategy, please feel free to contact me at 585-721-2385. Also look for my monthly informational group discussion that I give at the Brighton Recreation Center in this magazine's Event Calendar.

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## Estate, Legacy & Long-Term Care Planning Center of Western NY

**Do you have all the proper planning in place?  
Are you doing everything you can be doing?**

### Ask Yourself...

- Have I done everything I can to maximize the legacy I leave to my loved ones by minimizing the taxes that they will pay?
- Am I aware of all available ways to protect my assets from the high cost of nursing home care?
- Should I explore long-term care insurance? Trusts?
- Will some of my assets have to go through Probate? What can I do to prevent it?
- How can I use my IRA accounts to create a substantial tax-free estate for my children and grandchildren?

**Call 721-2385 to schedule a discussion**

Free Monthly Estate, Legacy and Long-Term Care Planning Informational Group Discussions at Brighton Recreation Center  
*Last Thursday of each month, see Calendar of Events for more information*

**Please watch my recent interview:  
www.legacyandltcplanning.com/monteinterview**



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