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INHERITED IRA: SPOUSE BENEFICIARY

If you are a spouse beneficiary, you have two options:

1. Do a spousal rollover — roll the account into your own IRA, or continue to own the account as a beneficiary. If you do a spousal rollover, it will be as if the IRA was yours to begin with. All the normal IRA rules will apply — whether Roth or traditional. There is no time frame of when this rollover must occur. The spouse can do it several years down the line.

2. If you continue to own the account as a beneficiary, the rules will be mostly the same, with a few important exceptions. No 10% penalty; you can take distributions from the account without being subject to the 10% penalty, regardless of your age. So if you expect to need the money prior to age 59½, this is a good reason not to go the spousal rollover route.

Note: If the original owner (your spouse) was required to take an RMD in the year in which he died but he had not yet taken it, you're required to take it for him — calculated in the same way it would be if he were still alive.

PLANNING TIP

If an IRA owner leaves behind an IRA with multiple beneficiaries, the beneficiaries can use the rule to split the IRA into multiple IRAs with a single beneficiaries for each or leave the IRA intact but create separate shares for each beneficiary. Choosing this option will allow each beneficiary to take distributions using their own life expectancy.

THE LIFE EXPECTANCY TABLE CAN BE FOUND IN IRS PUBLICATION 590

NON-SPOUSAL BENEFICIARY OF TRADITIONAL IRA DISTRIBUTION TREATMENT

Rule 1: The deceased was not 70½ years old and has not begun taking RMDs. When a person other than a spouse inherits a traditional IRA, rolling over the IRA to the beneficiary's IRA is not an option. Instead, non-spouse beneficiaries can either take the money in a lump sum or take distributions from the inherited account. In the case of an inherited IRA where the deceased was under age 70½ and hadn't begun taking RMDs, the beneficiary must start taking RMDs by Dec. 31 in the year following the year in which the deceased passed away. The RMD would be based on the beneficiary's life expectancy. Alternatively, the beneficiary could delay distributions, as long as he withdraws all of the assets in the IRA within five years of the deceased person's death.

Rule 2: Beneficiary of traditional IRA is not a spouse and the deceased had begun taking RMDs (over 70½ years old). Rollovers are not allowed to non-spouse beneficiaries. Beneficiaries can take the assets in a lump sum or take distributions from an inherited IRA account using the longer of the beneficiary's own lifetime or deceased IRA owners remaining life expectancy. RMDs must begin by Dec. 31 following the year of the deceased person's death. If the deceased did not take his or her RMD for the year in which he died, distributions must be made by year-end. **Rule 3:** The Beneficiary is a Qualified Trust. In certain

situations, it may be beneficial to name a trust as the beneficiary for estate planning purposes. The trust beneficiaries are considered the designated beneficiaries for computing post mortem RMDs. The oldest trust beneficiary's single life expectancy is used to compute the RMD. If it is a nonqualified trust, distributions must be made by the end of the fifth year after the year the owner dies, if the owner dies before RMD. Otherwise post death RMDs are calculated using the owner's single life expectancy table.

IMPORTANT PLANNING NOTE

1. Check the beneficiary form you filled out when you opened your IRA. Be sure the beneficiary is still the person you want to inherit it. If not, you can update the form at any time. The IRA custodian where you opened your IRA will have a copy of the form. At least annually, you should review it and change it if necessary. Be sure to keep a copy with your important estate-planning documents.

2. Educate your beneficiaries. The beneficiary must leave the original owner's name on the account. If the account is changed to reflect only the beneficiary's name, the IRS will treat the entire value of the IRA as immediate income to the beneficiary. The IRA must continue to have the decedent's name on it, and his or her date of death, together with the Social Security number of the beneficiary.

ROTH IRA INHERITENCE

There is a big difference if one inherits a Roth IRA. Unlike traditional IRAs, the Roth is not subject to distribution rules, so the account holder is not required to start distributions at 70½. A spouse can keep the Roth IRA intact, roll the proceeds into a new or existing IRA account and may continue to contribute to the account. There would be no requirement to take distributions.

A non-spousal beneficiary, on the other hand, must take distributions either by the end of the year marking the fifth anniversary of the account holder's death or over the life expectancy of the beneficiary, starting no later than Dec. 31 of the year following the year the account holder died. No matter how the beneficiary decides to take the Roth IRA distributions, none would be subject to the 10 percent early withdrawal penalty as Roth IRA contributions are made with after tax dollars.

St. Patrick's Day Toast

"Here's to a long life and a merry one.
A quick death and an easy one
A pretty girl and an honest one
A cold beer – and another one!"

Dave Owens, CPA, CES

Tax Free Strategies – Opportunities for the Savvy Investor

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Self-Directed Retirement Accounts

A self-directed IRA allows you to invest in both "traditional" investments such as stocks, bonds, and mutual funds, as well as "non-traditional" investments, like real estate, mortgages/deeds of trust, private placements, tax liens, and other private placements and limited partnerships. A self-directed IRA enables you to use your investment knowledge and expertise to manage your own investments. It is a common misconception that you can only hold CD's, stocks, bonds, and mutual funds in your IRA. This is simply not true. A self-directed IRA quite simply is an IRA account that allows you to directly manage and choose which investments to purchase.

There are so many options to consider with a self-directed IRA. Listed below are the most popular investments

- Real Estates
 - ⇒Raw land
 - ⇒Rentals (Single Family/Duplex/Triplex)
 - ⇒Foreclosures
 - ⇒Short Sales
 - ⇒Condominiums/Commercial
- Notes/Mortgages
- Private Stocks
- Gold and other precious metals
- Private LLCs

- Structured Settlements
- Tax Liens/Certificates
- CDs/Stocks & Bonds
- Commodities/Futures/Forex
- & More

Why invest with your IRA dollars—The main benefit of IRA investing vs after-tax investing is the opportunity for tax free gains inside your account. By not having to pay the taxes on a sale of assets, you can keep more money for yourself to grow your nest egg and build wealth

How to set up a Self-Directed IRA?

The first step to get started in self-direction is finding the right IRA Administrator. Entrust is one of the top IRA Administrators in the United States. Entrust focuses on helping IRA investors take control and purchase the assets they want. Entrust Freedom can be reached at 239-333-1031 or go to www.entrustfreedom.com.

Once you have identified your administrator, you will need to open an account and transfer funds from an existing IRA or make a contribution. Now that the account is set up, you will direct your administrator on what type of non-traditional asset you would like to purchase. ***Self Direction is easy, so why not take control today?***

REAL ESTATE IRAS

If you've got an urge to sock away something in your IRA besides stocks, bonds and mutual funds, you may want to consider real estate. Raw land, houses, condos, commercial properties and even mortgage notes -- you can use an IRA to broaden your portfolio. A real estate IRA can be a great investment and offer a tremendous opportunity to investors who want to control and grow their IRA. Now may be the time to take advantage of the record low prices in the real estate market and use your IRA to get started investing today.

FREE eBook ON REAL ESTATE IRAs

If you are looking to get started in Real Estate IRAs, look no further than the eBook *Understanding Real Estate IRAs* written by Dave Owens CPA. The free download of this book can be found at www.daveowens.com. The book is a hands-on guide to the ins and out of real estate IRA investing.

1031 EXCHANGES—WHAT IS A "QUALIFIED INTERMEDIARY?"

In a 1031 exchange, an investor must do more than sell real estate and reinvest the proceeds. To qualify for the favorable tax treatment, the investor can't touch the proceeds from the sale. This is where a "qualified intermediary" or man-in-the-middle comes in. The investor hires an intermediary to handle the money in the 1031 exchange account until the investor is ready to close on a new property, which consummates the 1031 exchange. The QI's role also includes facilitating the exchange using an exchange agreement, which means the QI becomes a party to the transaction. Based on the above description of the "qualified intermediary's" role, you can appreciate why it is important to choose an intermediary carefully. Choose an experienced Qualified Intermediary.

- How many years has your Qualified Intermediary been in business?
- How many exchanges have they performed
- Is the Qualified Intermediary Insured?
- Where are the proceeds kept during the holding period?

1031 Tax Free Strategies has been performing 1031 Exchanges since 1997. Trust an experienced Qualified Intermediary to help ensure your exchange is handled with the highest degree of professionalism. For more info go to www.1031company.com or call 239-333-1031