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NAMING A TRUST AS YOUR IRA BENEFICIARY

If you choose to name a trust as the beneficiary of your IRA, there are some important considerations. If the trust qualifies as a look-through trust, the IRS permits the use of the oldest trust beneficiary's life expectancy be used for purposes of the required minimum distributions. This arrangement can be especially beneficial when the trust is for minor children. There is a potential for years or decades of tax-free growth of your IRA assets.

There are risks with designating a trust as your beneficiary. First, the trust could wind up paying higher taxes than your heirs would because trust tax rates are higher than most individuals' rates. The 35 percent tax rate kicks in on a trust when income exceeds \$9,750.

Second, the trust must qualify as a look-through trust. It is called a look-through (or see-through) trust because one is able to look through the trust to the beneficiaries named under the trust. The trust will not qualify if you have named beneficiaries that are not people, such as a charity, your estate or another trust. Since those entities do not have life expectancies, the IRS will not allow any of the beneficiaries involved to stretch out the withdrawals -- even though that was your intent.

PLANNING TIP—DISCLAIMING ASSETS

A decedent's spouse named as the beneficiary can disclaim assets letting a contingent beneficiary or Trust inherit the IRA. The contingent beneficiary still must be identified before death. This is typically done for estate planning purposes. Assets that are disclaimed could be subject to RMDs.

Choosing a beneficiary in a retirement plan or IRA is extremely important. Do you really want someone to choose a beneficiary for you? Some people believe that choosing a beneficiary is more important than having a will because your retirement plan is usually the major asset in your estate along with your home. There are a number of factors that should be considered including:

- * the participant's or spouse's health
- * financial needs of beneficiaries
- * spouse's financial dependence on the IRA
- * the desire to designate certain assets to heirs.

The beneficiary's age is also important because his/her life expectancy is used to calculate the required minimum distribution. There are many techniques available to stretch the IRA distributions over the life of a younger beneficiary. See TFS Brief on "Stretch IRA."

WHO IS THE BENEFICIARY?

The beneficiary is a person named by the retirement plan participant or the IRA owner as the recipient of the retirement assets in the event of death of the owner. Oddly enough, the beneficiary does not have to be a specific person as long as an individual is identifiable according to the designee form. For example, a proper identification would be "my son".

In the event that a beneficiary is not named, the plan document or the IRA can have a default provision that would identify a particular person, such as a spouse.

NOT NAMING AN IRA BENEFICIARY

If you do not name an IRA or retirement plan beneficiary, your retirement assets will probably pass to your estate. The estate will distribute the assets according to the direction in your will. Normally, an IRA is a non-probate asset, but once it goes to the estate, it is subject to probate and state laws. If your estate becomes the beneficiary of the IRA, the IRA can now be subject to any creditors of the estate. Because there is no designated beneficiary (and an estate has no life expectancy), if an IRA is left to an estate, the IRA will need to be paid out quickly. It could be subject to tax, thus eliminating the possibility of deferring the taxes and using a younger beneficiary's life expectancy.

Highlights for Choosing a Beneficiary

- Review your designation upon any life changing event such as marriage, birth of a child, death of the beneficiary, or divorce
- Always name a contingent beneficiary
- Keep a copy of the IRA beneficiary form with your will
- Identify the tax opportunities for postmortem planning like segregated accounts
- Be sure to keep a copy of your beneficiary form with contact information
- Understand the retirement or IRA documents and how the default provisions work. Review annually.
- Obtain professional guidance if you would like to designate a Trust

POSTMORTEM PLANNING FOR BENEFICIARIES

If a primary beneficiary disclaims the IRA before September 30th after the IRA owner's death, the "designated" beneficiary age will now determine how the account is distributed for RMD (Required Minimum Distribution) purposes. The year following the IRA owner's death, if the IRA has more than one designated beneficiary, RMD will follow these rules.

- If the account cannot be divided into separate accounts before year end, the oldest beneficiary will determine the RMD.
- If the account can be divided into separate accounts by year end, each beneficiary's life expectancy will determine the RMD.

You can have an inherited IRA transferred to a new IRA custodian. The beneficiary has the right to control all investment decisions. The title on the IRA must be the individual as the beneficiary of the deceased IRA. (i.e. John Smith as beneficiary of the Robert Johnson IRA, deceased)

*We have the Bill of Rights.
What we need is a Bill of
Responsibilities.*
~Bill Maher

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 can be reached on the web at www.1031-ira.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?***

Have a great day!

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