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#### **BENEFITS OF A STRETCH IRA**

There are many rules that govern how an IRA must be distributed. Typically, most IRAs have to be distributed as a lump sum or within five years after the IRA owner's death. In these five years, all the IRA assets must be distributed, assuming the beneficiary is a non-spouse. The five year rule applies when the IRA owner dies before his required minimum distribution date, which is April 1 the year after he turned 70 1/2.

There is a planning opportunity for a spouse. The spouse may not need all the extra income from the IRA right away. Additionally, accepting higher distributions could increase their taxable income which will push him or her into a higher tax bracket. If this does happen, a large percentage of the IRA could be lost to federal income taxes.

A stretch IRA keeps your assets in the hands of your family rather than your estate trustee, who will likely pay out the IRA immediately. If the IRA owner is older than 70.5, the spouse beneficiary can reject the IRA, and a younger beneficiary can accept the IRA based on their life expectancy. Children can be named an IRA contingent or second beneficiary.

#### **WHAT IS A STRETCH IRA?**

The Stretch IRA is not a new idea. It is a method to transfer wealth over future generations. Many savers have an individual retirement account as their primary retirement vehicle. The Stretch IRA is a great technique to extend the life of the IRA even after you are gone. Let me tell you how a stretch IRA can be passed from generation to generation.

When you're thinking about your retirement savings, you may have wondered how you could pass your assets on to your children, grandchildren or others. A Stretch IRA might be the answer for you. The basic premise to accomplish your goal is that the younger the beneficiary that is named, the lower the distribution, and hopefully, with steady returns, the IRA will continue on longer.

A stretch IRA is a provision you can add to your current IRA. It does not matter whether you have a Traditional IRA, Roth, SEP, or SIMPLE IRA. A Stretch IRA allows your IRA to continue to grow tax-deferred indefinitely because it will be passed from generation to generation.

#### **HOW TO SET UP A STRETCH IRA**

To set up a stretch IRA, the IRA needs to have two provisions. First, the IRA should allow you to designate a beneficiary who can elect to receive distributions based on a life-expectancy

period. Second, the IRA will allow the IRA owner to select a second or third generation beneficiary. This is the provision that essentially makes it a stretch IRA.

With any inherited IRA, you must withdraw a minimum amount annually to avoid an excess accumulation penalty. The amount is based on the primary beneficiary's life expectancy. For example, the life expectancy of a 50 year old beneficiary is 34.2 years, so there would be a \$5,263 minimum required distribution on a \$180,000 IRA. If that beneficiary passes away prematurely, the second-named beneficiary would continue receiving distributions based on the previous 34-year life expectancy.

*IRA distributions could be stretched out even further if the original IRA owner named a second or third generation beneficiary from the start. For example, a 30 year old beneficiary has a life expectancy of 53.3 and would receive a minimum \$3,377 distribution for 53 years instead of the 34 years in the previous example. There is an opportunity to make your beneficiary a millionaire. Assuming a 6% rate of return, a \$100,000 IRA can pay out more than \$1 million over 53 years. Again, the younger the beneficiary, the greater the life expectancy, and the longer the IRA has to grow.*

Final thought, be sure to review your beneficiary forms annually to make sure you planned accordingly.

#### **STRETCH WITH A ROTH?**

There is confusion on the Stretch IRA that it must be a Roth, and that is not true. There are specific rules for distributing an inherited Roth IRA.

Assuming the beneficiary is a non-spouse, the first option is to receive the entire distribution by December 31st of the fifth year following the year of the IRA owner's death. This can be done in order to avoid income taxes on account earnings. Also, the beneficiary may withdraw the initial contributions of the Roth IRA other than the accumulated earnings at any time without taxation.

The second option is to receive portions of the IRA as distributions over the beneficiary's life, terminating upon the death of the beneficiary and passing on to a secondary beneficiary. The distributions are ordered and will initially come out of the contributions portion of the IRA, and later from the earnings.

#### **WHICH IRA PAYMENT OPTION IS BEST FOR YOU?**

Example—A fifty year old male inherits a \$500,000 IRA from his uncle that has an average rate of return that is 6%. This example assumes an unmarried beneficiary in the 28% tax bracket using 2011 tax rates.

*Three options for payout—*

- 1. Stretch or expected lifetime option—total payout \$1,245,000*
- 2. Five year option—total payout \$444,444*
- 3. Lump sum option—one time payout \$334,000*

*\*Source Money Magazine May 2011*

*Tax laws aren't guaranteed, so the benefits of a stretch IRA are subject to changes in the tax law.*

*"Never put off until tomorrow what you can do the day after tomorrow."*  
- Mark Twain

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](http://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](http://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](http://www.1031company.com) or call 239-333-1031***