

IRA Tax Fundamentals and Strategies



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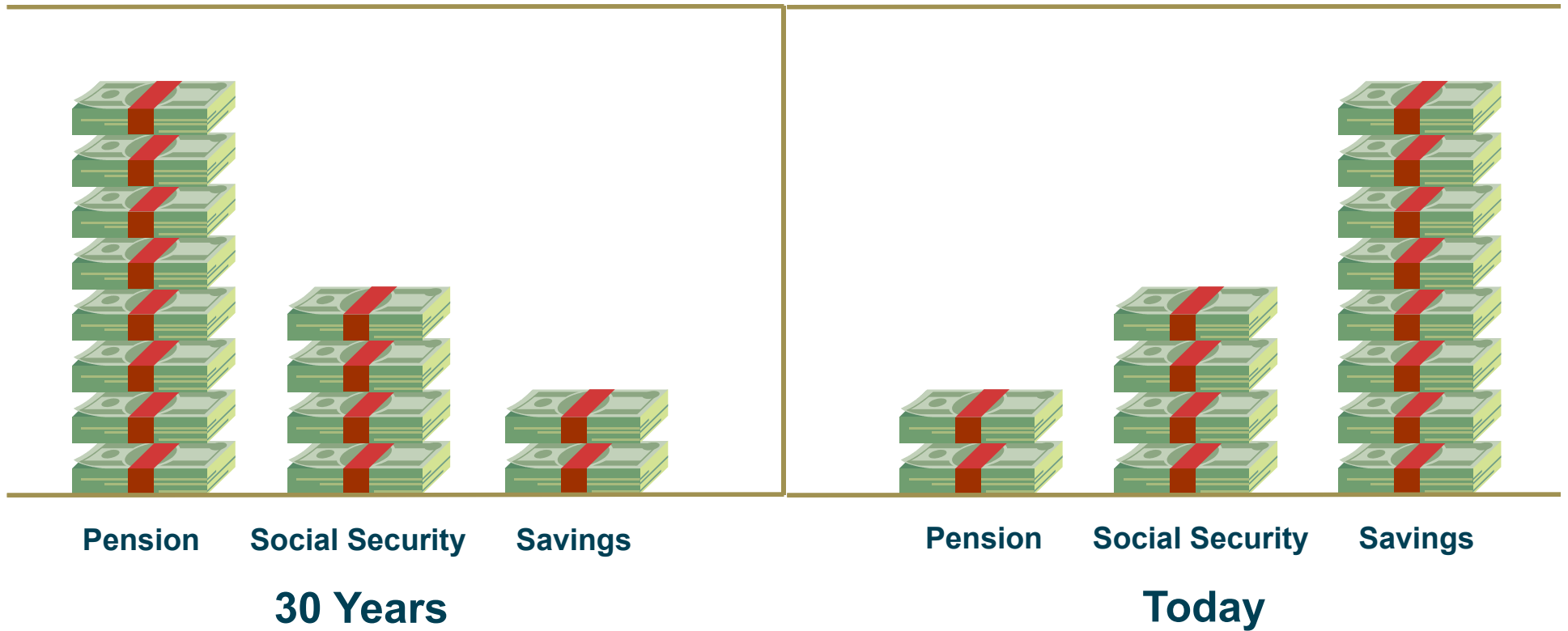
Today's Objectives

Today I'll demonstrate how you can improve your legacy

by describing what IRA investors typically do, & comparing it to two simple but powerful ideas

so you can maximize your IRA legacy potential

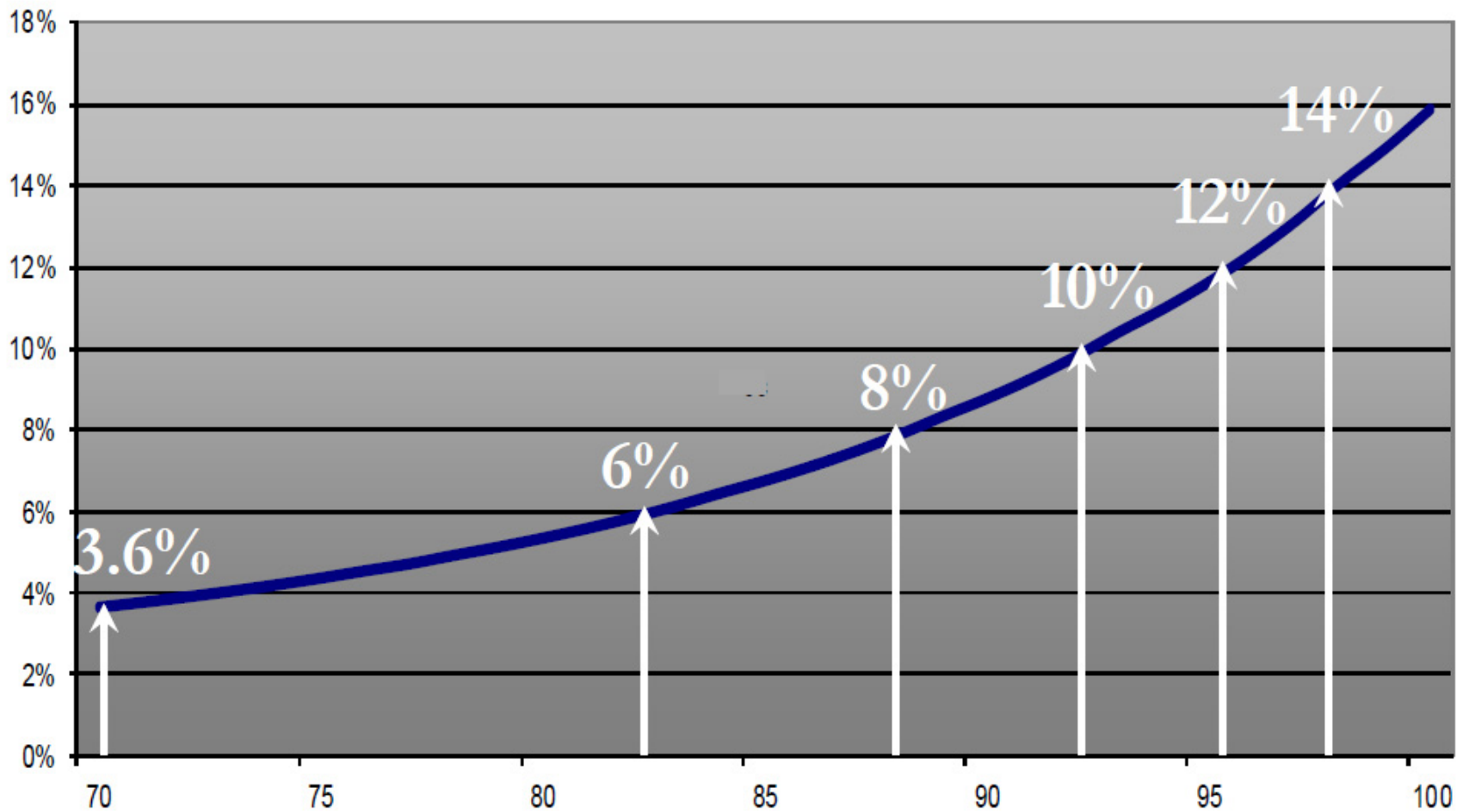
Sources of Retirement Cash Flow



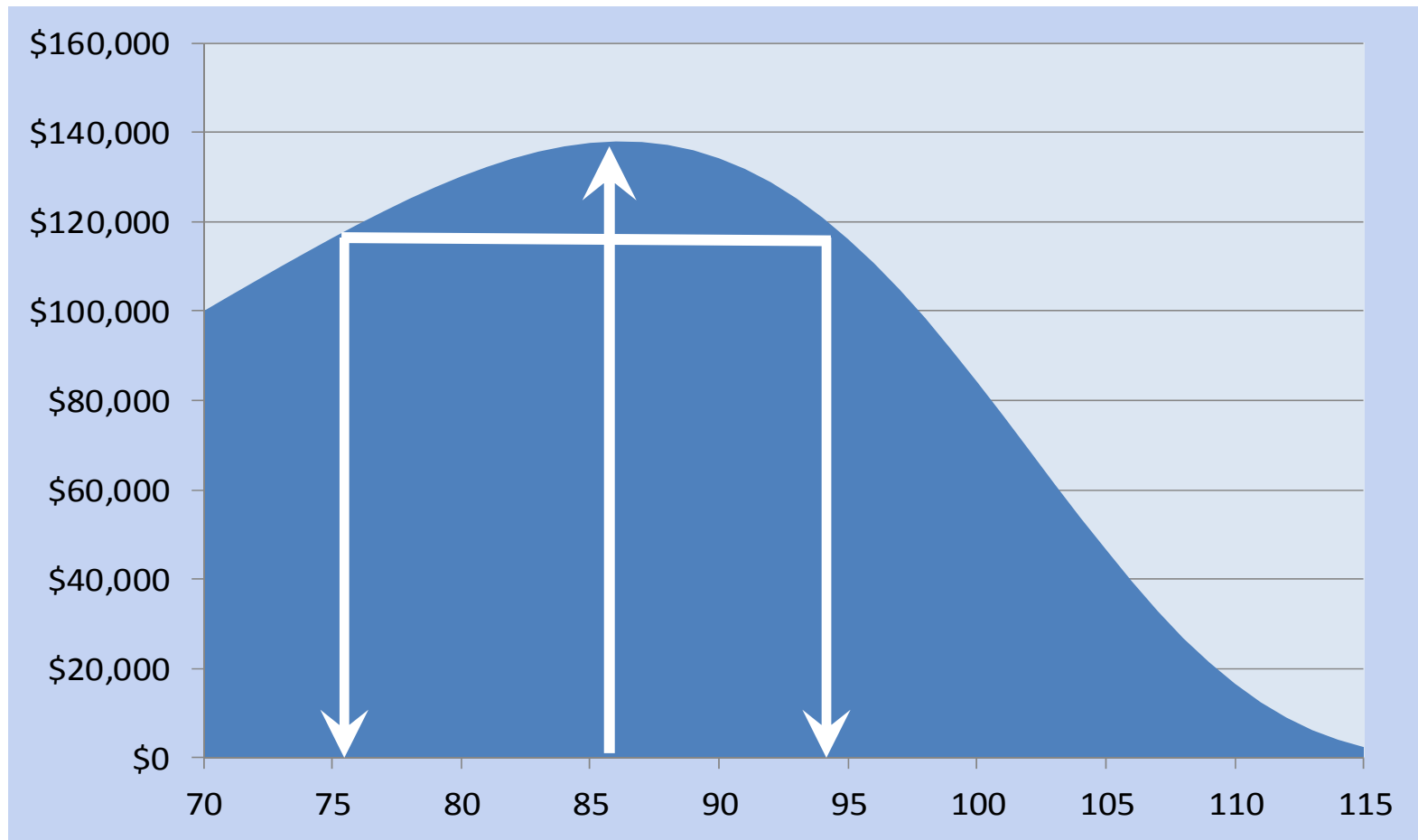
The dilemma

- Many people who have been successful in saving for retirement have established a large enough nest-egg to be able to create a legacy for their children, grandchildren and favorite charities, leaving them to wonder how to best leverage their qualified or tax advantaged retirement plans.
- A common question is whether IRA owners should take larger withdrawals and pay income taxes now, or whether they should take out as little as possible during their lifetime, leaving a likely income tax burden for their heirs and beneficiaries.

RMDs vs. Account Value



Projected IRA Values



\$100,000 IRA; 7% hypothetical annual return

RMD Table

Age	Uniform Table Divisor	Single-Life Table Divisor	Age	Uniform Table Divisor	Single-Life Table Divisor	Age	Uniform Table Divisor	Single-Life Table Divisor
70	27.4	17.0	86	14.1	7.1	102	5.5	2.5
71	26.5	16.3	87	13.4	6.7	103	5.2	2.3
72	25.6	15.5	88	12.7	6.3	104	4.9	2.1
73	24.7	14.8	89	12.0	5.9	105	4.5	1.9
74	23.8	14.1	90	11.4	5.5	106	4.2	1.7
75	22.9	13.4	91	10.8	5.2	107	3.9	1.5
76	22.0	12.7	92	10.2	4.9	108	3.7	1.4
77	21.2	12.1	93	9.6	4.6	109	3.4	1.2
78	20.3	11.4	94	9.1	4.3	110	3.1	1.1
79	19.5	10.8	95	8.6	4.1	111	2.9	1.0
80	18.7	10.2	96	8.1	3.8	112	2.6	
81	17.9	9.7	97	7.6	3.6	113	2.4	
82	17.1	9.1	98	7.1	3.4	114	2.1	
83	16.3	8.6	99	6.7	3.1	115 +	1.9	
84	15.5	8.1	100	6.3	2.9			
85	14.8	7.6	101	5.9	2.7			

I.R.D.

Income in **R**espect of a **D**ecedent



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IRD: The Bad News Is. . .

1. No step-up in basis at death
2. Beneficiary pays income tax at owner's death
 - Taxes are calculated at Beneficiary's tax rate
3. Deceased IRA owner must include the entire IRA value in his / her estate for estate taxes
 - Even though the \$\$ pass directly to the designated beneficiary!

This is what's known as the “***Double-Tax***”

IRD: The Good News Is. . .

You can overcome these problems, and. . .

The IRS gives you tools to do it!

1. **Stretch** the inheritance to spread the taxes over many years and continue tax deferral
2. Consider **charitable** beneficiaries
3. **NUA** – Net Unrealized Appreciation
4. **IRD Deduction**: Beneficiary receives an *income tax deduction* for estate taxes paid by owner

Estate Taxes & IRD

IRA values included in decedent's gross estate

- Decedent's estate pays the estate taxes
- Beneficiary pays the income taxes

Unlimited Marital Deduction (since 1982)

- Allows first-decedent-spouse to pass IRA to surviving spouse without incurring estate tax

IRD income-tax-deduction for beneficiary's

- For the estate taxes attributable to the IRA

The Problem? ? ?

- Decedent's CPA vs. Beneficiary's CPA

IRA Estate Tax Example: Theory vs. Reality



IRA Estate Tax Example: Theory vs. Reality

	Decedent	Beneficiary
IRA Value:	\$1,000,000	\$1,000,000
Estate Tax (40%):	<u>-\$400,000</u>	<u>-\$0</u>
Net Value:	\$600,000	\$1,000,000
Income Tax (40%):	<u>-\$0</u>	<u>-\$400,000</u>
Total Taxes:	\$800,000	
% Lost to Tax:	80%	

IRA Estate Tax Example:

Theory

vs.

Reality



Estate Tax Exclusion: Then and Now

1997:

\$600,000

Per Person

2014:

\$5,340,000

Per Person

Stretching The IRD Deduction

Recall the previous example:

- IRA Value = \$1,000,000
- Estate Tax (40%) = \$400,000
- Creates IRD deduction of 40% of the asset

Children inherit \$1,000,000

- Stretch = \$80,000 per year for 30 years (over-simplified)
- Estate Tax Deduction = 40%
- So 40% of each stretch payment is excused from income tax until the deduction is used up

Each stretch payment is 40% income-tax-free for 12.5 years!

- Unlimited deduction carry-forward
- Can amend prior 3-years' tax-returns

2 IRA Wealth Transfer Strategies



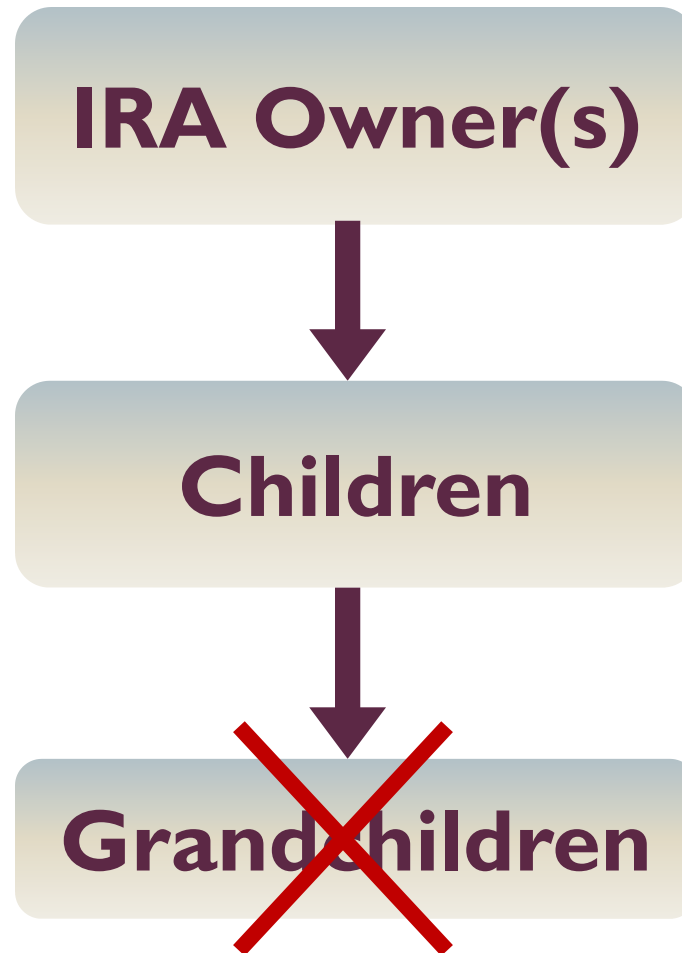
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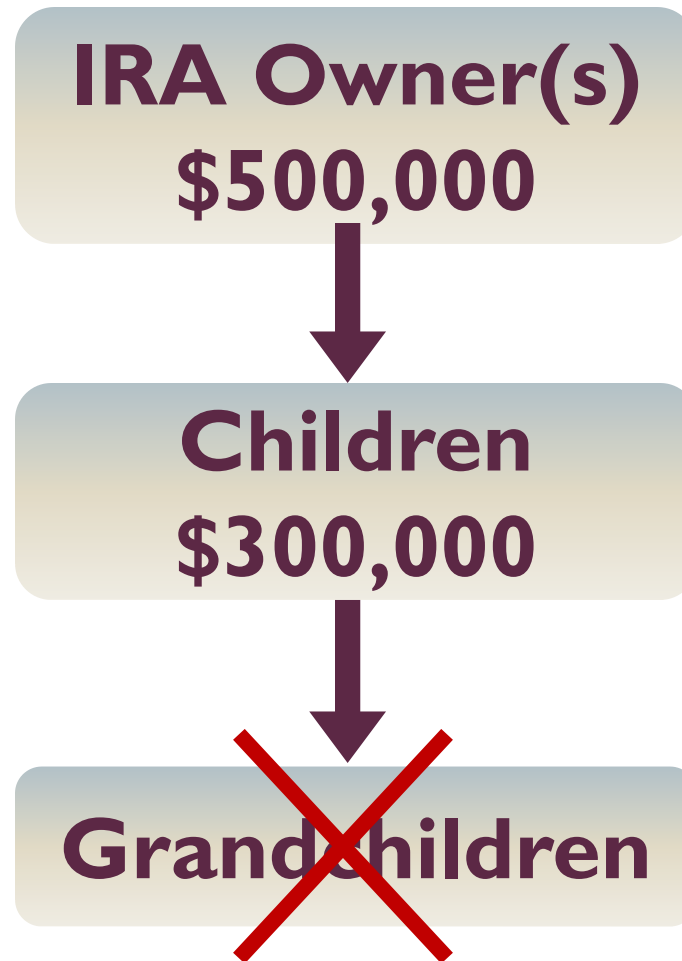
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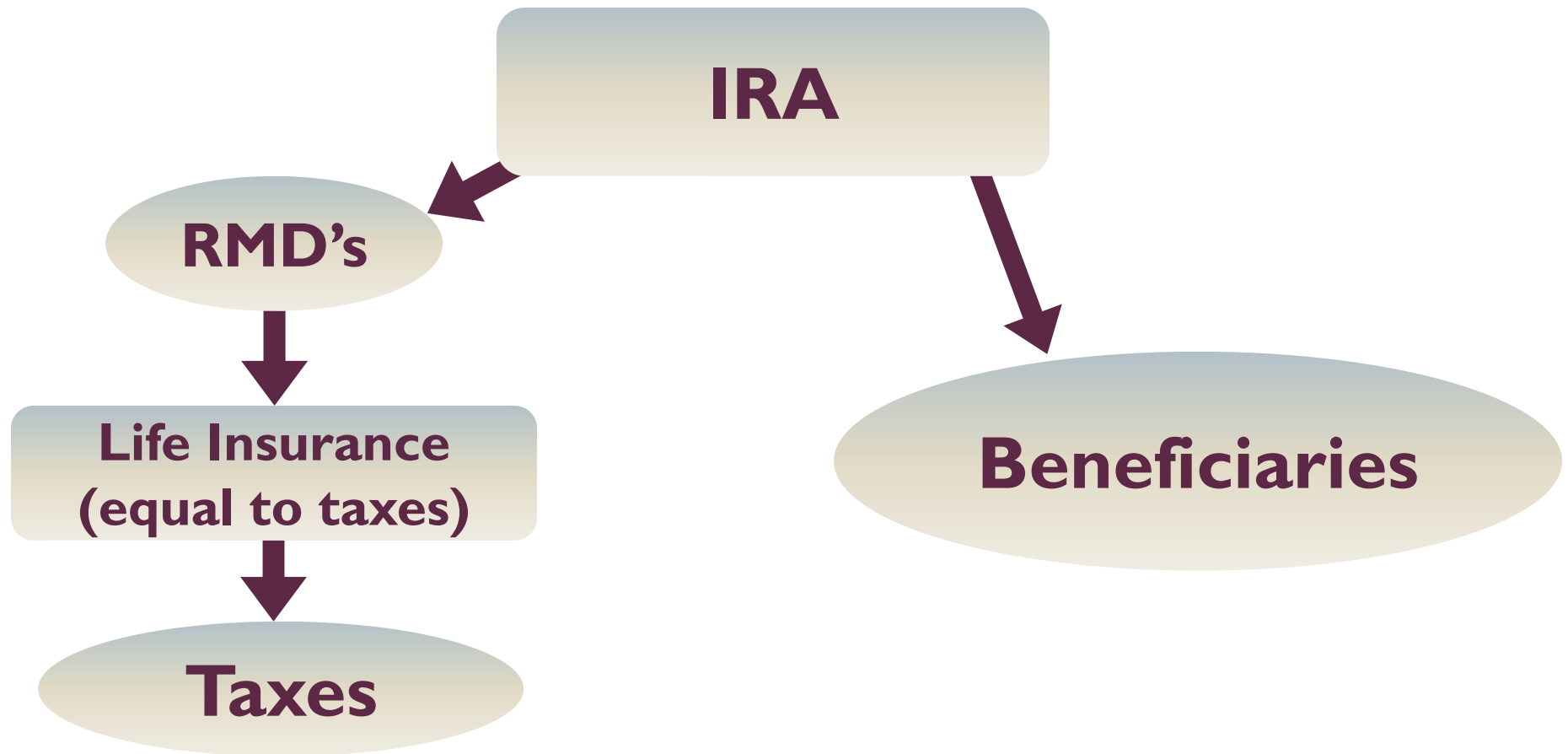
Typical IRA Transfer



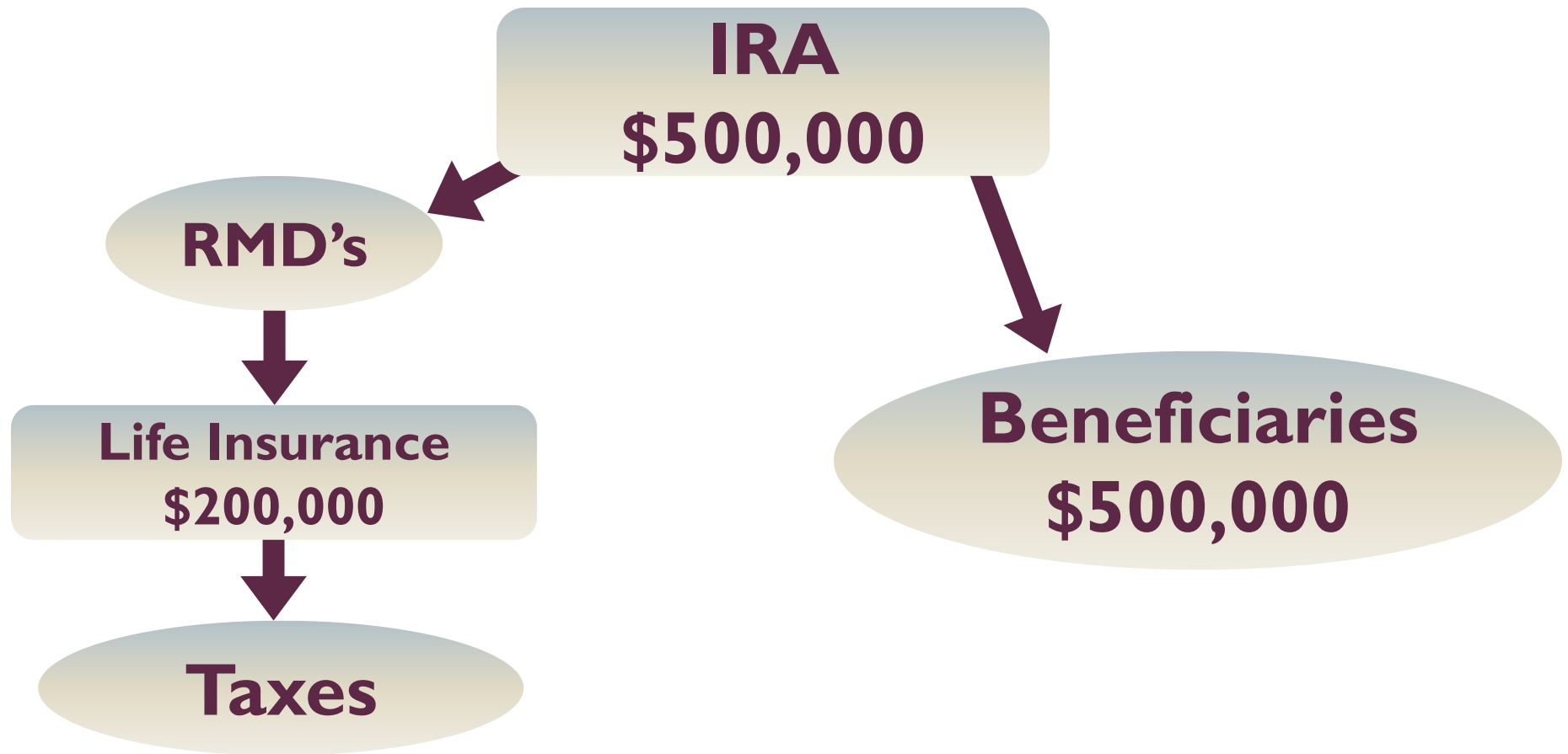
Typical IRA Transfer



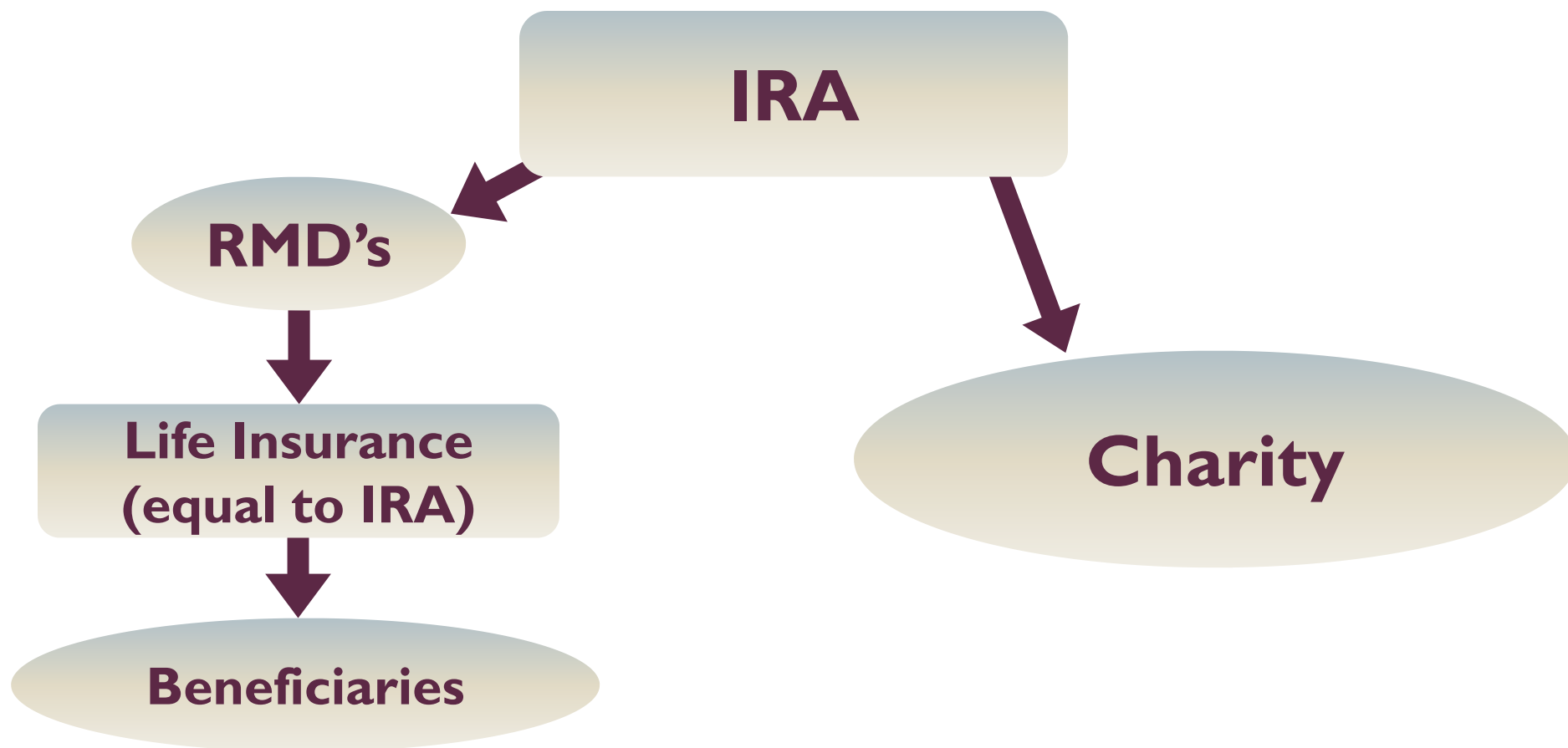
I. IRA Income Tax Offset



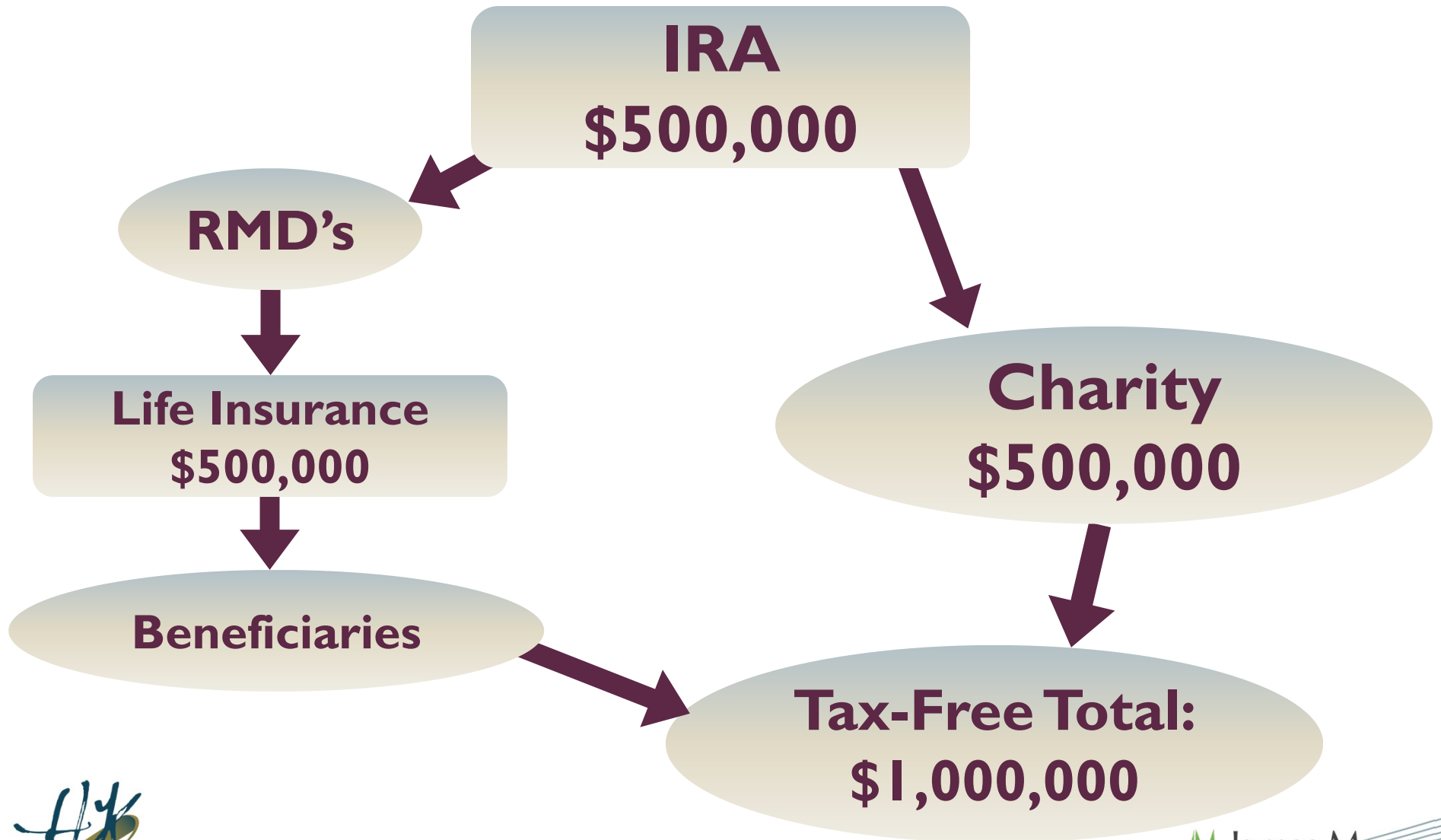
I. IRA Income Tax Offset



2. IRA Income Tax Elimination

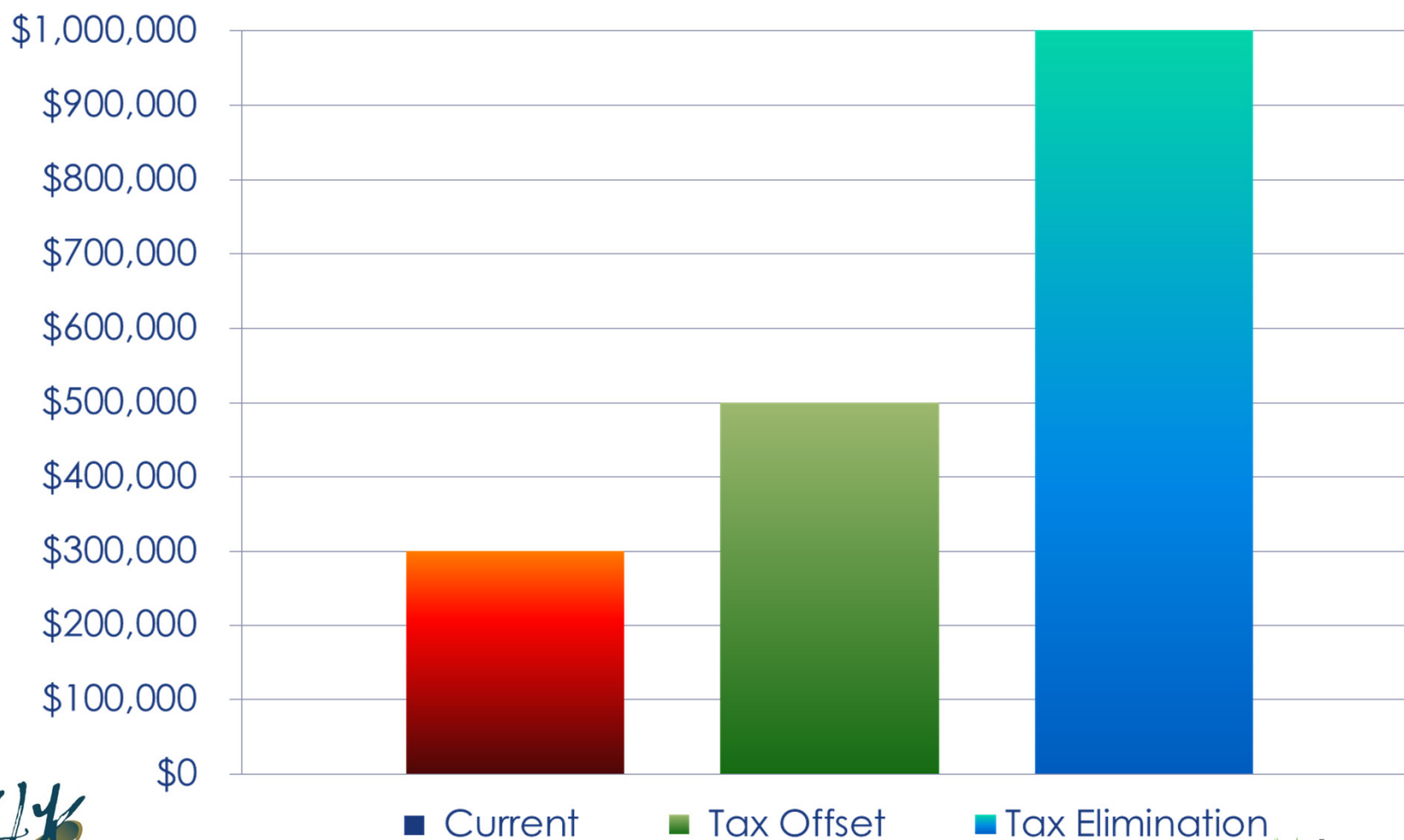


2. IRA Income Tax Elimination



Comparison of Strategies

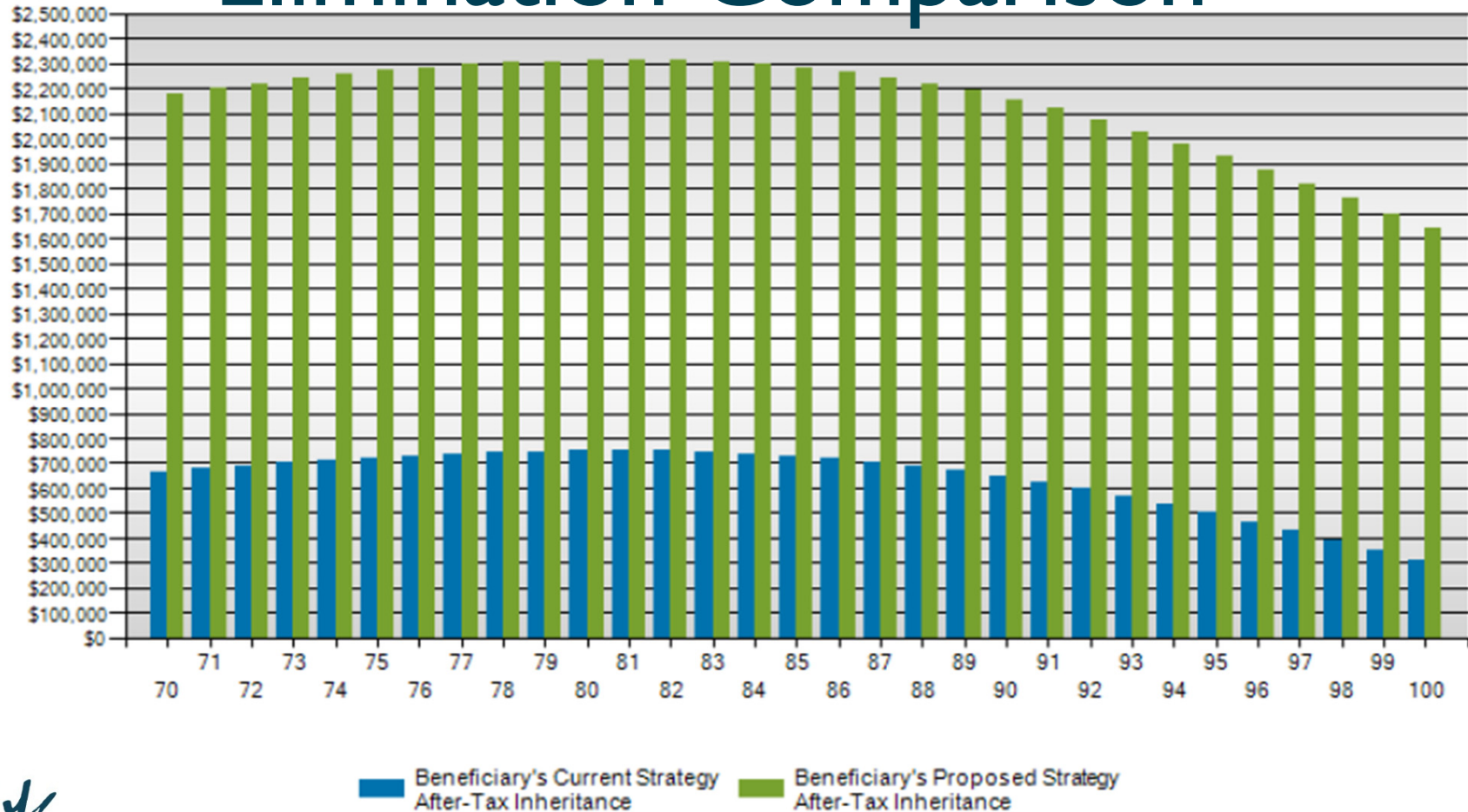
Total Net After-Tax Legacy



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IRA Beneficiary Income Tax Elimination Comparison



The “Soft” Close

“I know you qualify for this program financially, but. .

.

I don’t know if you qualify medically.”

You have time to think about it.

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Advisory services offered through Honkamp Krueger Financial Services, Inc., a Registered Investment Advisor.



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