IRAs Are Different

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ED SLOTT'S MASTER ELITE IRA ADVISOR GROUP™

IRAs are distributed differently than all other assets both during life and death.

Here's Why:

- IRAs pass by contract (generally not by will)
- IRAs have required minimum distributions (RMDs)
- IRAs have their own set of complex distribution rules both during life and after death
- IRA distributions can incur tax penalties
- IRAs are highly taxed upon death or withdrawal
- IRAs are subject to double tax at death (estate and income tax, plus state versions of those taxes) in addition to IRS penalties that can apply to withdrawals made by the owner
- IRAs receive NO step-up in basis
- IRA investment gains are taxed as ordinary income, not at capital gains tax rates
- IRA investment gains are **not subject** to the 3.8% investment income surtax
- IRAs cannot be gifted or transferred during lifetime. EXCEPTION: a direct gift to a charity (a qualified charitable distribution) under the Pension Protection Act of 2006 – this provision was extended through 2013 by various tax acts. It is not yet extended through 2014. EXCEPTION: a court ordered transfer that is part of a divorce agreement
- IRAs cannot be transferred to trusts during lifetime or after death
- IRAs cannot change ownership during lifetime - this would trigger an immediate and complete distribution and the tax shelter.
- IRAs cannot be owned jointly, like other property can be owned, even in community property states
- IRA equity cannot be tapped the way home equity can be tapped without triggering tax and potential IRS penalties
- The choice of IRA beneficiary determines the ultimate future potential value of that IRA to beneficiaries
- Trusts named as IRA beneficiaries must qualify under specific IRS rules so that trust beneficiaries are eligible for stretch IRA tax benefits. There are no separate account rules for trusts named as IRA beneficiaries

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- IRA beneficiaries may qualify for special tax breaks that are often missed
- IRAs have no principal and income concept. The entire IRA (principle and income) may be distributed to the income beneficiary of a trust leaving little or nothing to remainder trust beneficiaries. IRAs in a trust are all principal because under trust law, IRD (income in respect of a decedent) is principle in a trust and IRAs are IRD
- IRAs require their own estate plans and then those estate plans must be integrated within the overall estate plan that includes all other assets

By Ed Slott and Company, LLC

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