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3 Ways To Avoid Uncle Sam Becoming Your Biggest Beneficiary

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Retirement
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With the recent passage of the SECURE Act, a lot of attention has been given to the benefit granted to retirees to delay their required minimum distribution till age 72, previously 70 1/2. While this added flexibility is certainly a welcome change for people with IRAs, the Act also contained a tradeoff that may have a bigger impact for some retirees. The SECURE Act also eliminated the Stretch IRA option for non-spousal beneficiaries. In years past, if anyone other than your spouse inherited your IRA or 401k, they had to take distributions starting the year after they inherited the assets, regardless of age. However, the amount that was required to be withdrawn was determined by their age. Therefore, the younger your beneficiary, the lower the percentage they had to take out and pay taxes on. The new rules give beneficiaries of IRA or 401K assets a 10-year window to deplete the entire account or accounts now. Here are three strategies to consider to maximize your estate or limit you or your beneficiaries tax bill.

1.) With the vast majority of investors having a large portion of their retirement savings in pre-tax accounts, converting some of those assets to a Roth IRA can make a lot of sense. The idea is to convert smaller portions on an annual basis. Every dollar you convert is adding to your AGI for that tax year, so it is important to only convert an amount that keeps you in a tax bracket that you are comfortable with. While you will pay taxes on the amount converted in that tax year, there are 2 main benefits to this. First, with the 2017 tax law changes, tax brackets in general have been expanded and lowered. This is set to expire on December 31st, 2025. Next, there is typically a decrease in income during retirement which puts you in a lower tax bracket than in your previous higher earning years. While a non-spouse beneficiary will still have to withdraw the assets from a Roth in that same 10-year window, the distributions are not taxable to them. This strategy has the benefit of lowering the balance in your pretax accounts, from which your required minimum distributions are calculated.

2.) Another strategy to consider is gifting assets to family or friends during your lifetime. To capitalize on the current tax rates and potentially lower income in retirement, you may give some of your assets to your loved ones. This method is similar to converting assets to a Roth, with the exception being that the funds go to any number of beneficiaries of your choosing as opposed to a Roth IRA. This is a taxable event and the same precautions should be taken in terms of executing gifts in smaller amounts to avoid moving up a tax bracket. Doing so allows you to enjoy the added benefit of seeing your beneficiaries use your gift during your lifetime. The annual gift exemption amount still applies $15,000 per individual or $30,000 for a married couple. Also note that assets gifted from a non-retirement account do not receive a step up in cost basis.

3.) Similar to gifting to family and friends, you may feel more inclined to contribute to a cause that is important to you and your family through the use of a QCD (qualified charitable distribution). In many

cases, you may direct all or part of your required minimum distribution (up to $100,000) to be donated directly to a qualified charity of your choosing. In this case, the amount distributed as a QCD is excluded from your taxable income. With the vast majority of tax payers taking the standard deduction, the ability to itemize charitable contributions has less appeal. Using a QCD to have your RMD go directly to a qualified charity, will still give you the tax benefits of a charitable contribution and full benefit of the larger standard deduction.

A lot of focus in planning is set to getting to retirement, however we know financial goals for many people do not stop there. Using these strategies can help achieve many of your financial ambitions in a more tax efficient manner. While everyone's situation is different, it is important to consult with a financial planner or tax professional to see what strategy or combination of strategies works best for your particular circumstances.

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