



Agent and Advisor Guide to Advanced Markets Concepts



IRA Maximization

IRA Max is an estate planning technique for transferring the value in an IRA into a more transfer tax efficient arrangement (an ILIT and life policy).

The appropriate IRA Max prospect is a client with a large IRA that will not need those funds to support his/her retirement.

Taxation:

- IRAs owned at death are subject to estate inclusion thus increasing any estate taxes owed.
- IRAs do not receive a “stepped up basis” at death.
 - Amounts received by the decedent’s beneficiary are taxable as ordinary income (income in respect of a decedent) - the same as if the decedent had received the distribution.

The Process

- Client establishes an irrevocable life insurance trust (ILIT) that applies for and is beneficiary of a policy insuring client(s).
- Client takes distributions from the IRA.
- Distributions may be subject to a 10% penalty unless an exception exists. Exceptions are (IRC § 72(t):
- Client is age 59 ½ or older
- Client is disabled
- Distribution is part of a series of substantially equal periodic payments
- Client pays income tax on distribution received.
- Client gifts remaining distribution to ILIT. ILIT Trustee sends out Crummey notices to make the gifts a “present interest” allowing client to use annual exclusions.
- Trustee pays premiums on life insurance policy.
- At client’s/insured’s death, Trustee collects policy proceeds that are free from income and estate taxes.

Advantages:

- Unneeded IRA’s value is transfer-tax efficiently transferred to the next generation (or subsequent generations).
- Eliminates or reduces estate and income taxes associated with owning an IRA at death and subsequent distributions from that IRA.
- Can provide for an orderly distribution or retention of ILIT assets.

Bottom line:

IRA Max can be an effective way for your client to minimize estate and income taxes associated with owning an unneeded IRA and maximize the amount of wealth transferred to subsequent generations.

The preceding summary is intended to be a general discussion of the topic presented, and is based on our current understanding of applicable tax laws, regulations and rulings. In actual practice, the transaction discussed may be more complex and will require the attention and expertise of professional advisors. In no way should this summary be construed to constitute tax or legal advice. **For agent use only.**