

Price & Farrington's Estate Planning

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Estate, Tax and Family Wealth Preservation Planning For Advisors

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New IRA Regulations Are A Gift From the IRS

On January 11 the IRS issued sweeping changes to long-standing regulations that affect virtually every taxpayer who either owns or is the beneficiary of an IRA.

These changes, retroactive to January 1, bring *flexibility* and *simplicity* to the way IRAs are paid-out and taxed. As a result, your clients will save more money while you have an opportunity to make more money.

Background

Under the old proposed regulations in effect since 1987, IRA owners were forced to make irrevocable decisions concerning the identity of their designated beneficiary(ies) (DB) by their Required Beginning Date (RBD), which is April 1 of the year following the year the owner turned 70 1/2. The RBD is when the IRA owner must begin taking Minimum Required Distributions (MRD) from the IRA.

Under the old proposed regulations, all future MRDs to the IRA owner and his/her DB were based on these irrevocable decisions, even if the IRA owner later changed the DB.

The already complex process for calculating and then tracking the MRDs to the IRA

owner and their DB was complicated by whether the IRA owner died *before* or *after* his/her RBD and whether the IRA owner was taking MRDs at the time of death.

Flexibility

Under the new proposed regulations IRA owners can make lifetime changes in their choice of DB and -in a major change- *the DB can be determined as late as December 31st of the year following the year of the IRA owner's death.* Currently, such a lifetime change in the DB will not impact the MRD amount. Now, with this new post-mortem period for determining the DB, valuable adjustments can be made to maximize tax savings.

For example, under the old regulations, naming a charity along with the IRA owner's children as DB triggered lump sum taxation of the IRA as if no DB had been named. Under the new regulations, the charitable DB can be *cash-out* between the date of the IRA owner's death and December 31st of the following year.

As a result, the lump sum treatment will be avoided, allowing for an extended pay-out period and correspondingly lower taxes.

In addition to the cash-out technique, *disclaimers* can further maximize the benefits by stretching the pay-out period inter-generationally (e.g. If the IRA owner father names his son as DB, the son may now disclaim the IRA for the benefit of his own daughter). Special rules continue to apply whenever a trust is a DB. Proper planning with an estate planning attorney is necessary to insure compliance.

Simplicity

Unlike the complexity of the old regulations, the new proposed regulations provide one method -a Uniform Table- for determining life expectancy when calculating the applicable MRD amount. This method applies to everyone except IRA owners with spouses who are more than ten years younger. They may elect to use either the new method or a joint and survivor life expectancy method. Even the method for determining the distribution amounts to the DB after the IRA owner's death have been simplified.

Sidebar: With lower MRDs for IRA owners and lengthened distribution periods for their qualifying DB, you, as a financial advisor, will have an opportunity to manage more money in IRAs for a longer period, enhancing your fee revenues.

What should your clients do?



If they are already over 70 1/2 they need to meet with you to discuss this opportunity, including which method (old or new regulations) they want to use this year. They can unwind formerly irrevocable choices.

If your client turns 70 1/2 between now and June 30, they need to discuss their beneficiary choices with you before year-end, as the first distribution must be by April 1, 2002. But as a practical matter, it should be by Dec. 31 of this year.

In all cases, it is important your clients review their beneficiary designations, making certain they've named primary and contingent beneficiaries.

Finally, if your clients have friends or relatives who pass away this year, be sure their heirs seek competent advice to take advantage of these new planning opportunities.

Conclusion

Whenever the IRS issues sweeping changes, your clients and prospects will be affected-whether positively or negatively. Now is the time to educate them on how the changes impact them so they may make proper plans or revise existing plans. There will undoubtedly be more information and questions as these proposed regulations are analyzed in more detail. Though things may become less complex, the transition to simplicity isn't always as simple. Your clients should seek professional advice.

Our seminar, "IRA Planning: Tools, Tips & Traps-Beyond the Basics" (see box) is a great way for you and your clients and prospects to get help chopping through the thicket of IRA planning rules. We invite you!

You Are Invited To 3 Seminars!!
"IRA Planning:
Tools, Tips and Traps"
Mon., Mar. 5, 10:00 a.m.-12:15 p.m.*

"Protect Your Estate!
The Nuts & Bolts of Estate Planning"
Mon. Mar. 5, 7:00 p.m.-9:15 p.m.*
and

Wed. Mar. 7, 5:00 p.m.-7:00 p.m.†

"Advanced Estate Planning
For Estates of \$2 Million and Above"
Tues., Mar. 6, 7:00 p.m.-9:15 p.m.*
and

Wed., Mar. 7, 7:15 p.m.-9:15 p.m.†

*Bellefield Office Park Conference
Center in Bellevue
†Four Seasons Hotel in Seattle
2 hours CE: Call us to Register

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new IRA regulations!
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