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Is Your IRA an IOU to the IRS?

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Our government is in a financial crisis. They are on the precipice of maxing out their \$16.699 trillion credit limit and they can't agree on or pass a spending bill. With the inability of your elected leaders to be fiscally responsible with the taxes you've already paid, why would you want to hand over more of your hard earned dollars to them? That's what you're setting yourself up to do with an IRA. In this defining moment you need to know that your money will never be worth more than it is today due to inflation; and this may be the lowest tax bracket you will be in for the rest of your life.

You've been told that contributing to an IRA is a great way to save for retirement, but the fact of the matter is the unpaid tax (aka: deduction) in the year you contribute is like a loan from the government. On the day you withdraw money from your IRA savings, you must begin repaying that loan, most likely at a higher tax rate than when you contributed. Deferring taxes may seem like a benefit, but it's not. Why then are 95% of financial advisors pointing you in the exact opposite direction of where you want to go by telling you to put as much money as you can as far into the future when you know it will be worth less and taxed more? Whose future are you funding, yours or the government's? As Judge Learned Hand said, "Anyone may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes."

Is it possible to reverse the course of your IRA so that it doesn't become an IOU to the IRS? Is there a way to make your family and favorite charities the largest recipients of your IRA instead of Uncle Sam? With proper planning and a team of qualified advisors, YES! If you own an IRA and you love someone, you need to have a plan for your IRA and other assets, otherwise the state will and they don't have you or your family's best interests at heart. When you die, your money will go to three places: your heirs, charity or Uncle Sam. The law states that with proper planning, you can eliminate one of the three. I don't know about you, but I'd like to cross Uncle Sam off my list.

Consider this tale of two IRAs--one with a plan and one without. Robert had a self-directed IRA. He left it alone for as long as he could to delay paying taxes. At age 70 ½, he began taking out his RMDs as required by law and began paying taxes. Upon his death, his wife, Melinda, inherited the IRA and continued to take out RMDs. Upon her death, her children were beneficiaries of the \$100,000 IRA and also the nearly \$40,000 (40%) tax bill that was due on the money. Unfortunately, Robert's advisor either didn't know how or didn't have time to help Robert create a plan to mitigate these taxes.

Kandace also had an IRA. Before she had to begin RMDs, she met with a team of advisors including her financial and insurance advisor, a CPA and an attorney to create a plan that would cause her family and favorite charities to be the biggest beneficiaries of her IRA. Her plan included gifting her highly appreciated IRA asset to her favorite charity and taking a charitable deduction of the value of her IRA, which minimized her current tax liability. She used the revenue from the gifted IRA to purchase life insurance, which doubled and almost tripled the amount that she gave to her children upon her death. Kandace's IRA was no longer an IOU to the IRS. Instead, her charity and family were the benefactors of a much larger sum of money than if she had not created a plan. By not taking the time to create a plan for your IRA, you are voluntarily giving your money away to the government. In my research, when retirees are asked if they had the choice to leave their RMD inside their IRA, 70% or more said yes! Why? Because their IRA is infected with taxes and they usually don't need the money.

Robert was a casualty of traditional thinking and negotiating with a premise and concepts that were flawed from the very beginning. Kandace gained knowledge from a qualified team of professionals who helped put a solid plan in place for her IRA. Don't be that person who does nothing and leaves the bulk of their IRA to the government's coffers. Take action now. Have a conversation with your financial and insurance advisor to design a plan that will create a true legacy for your family and cherished causes.