If you have been putting money into an individual retirement account (IRA), it is important to consider what will happen to your IRA if you have savings left over at the time of your death. By thoughtfully incorporating your IRA into your estate plan, you can both (i) help reduce your loved ones' tax burden after your passing, and (ii) ensure that your named beneficiary (or beneficiaries) have the information and flexibility they need to make smart decisions about taking distributions from your account.

Estate Planning for IRA Owners

From required minimum distributions to contingent beneficiaries, there are a variety of factors that should influence individuals' decisions when it comes to estate planning with an IRA. Individual retirement accounts can offer significant tax savings; but, if they are not transferred strategically, much of this tax savings can be lost. As a general rule, a named beneficiary will not owe tax on a transferred IRA's assets unless and until he or she receives distributions from the account – just like the original account owner. However, if the account is not rolled over appropriately (particularly if the beneficiary is someone other than the original owner's spouse), this can result in immediate (and often substantial) federal tax liability.

When planning an estate that includes an IRA, some of the key questions that must be answered include:

What are the current and estimated future values of your IRA?
Who should you name as your IRA beneficiary or beneficiaries?
Who should you name as your contingent beneficiaries?
When will your beneficiaries need to take distributions from the IRA? How are these withdrawals likely to impact your beneficiaries' overall tax liability?
What other gifts are you making in your estate plan?

What is your expected estate tax liability? What sources are available for payment of estate tax, and what planning tools can you use to minimize your estate's tax burden?
Does it make sense to name a trust as your IRA's beneficiary?

Helping Your Loved Ones Prepare to Receive Your IRA

Due to the potential tax implications and relatively-short timeframes for allocating IRA assets and distributions in order to avoid unintended tax consequences, it is important to make sure that your beneficiaries understand what they need to do when it comes time to administer your estate. For example, your IRA beneficiaries should know how to contact your IRA account manager, and they should have an idea of what they plan to do with your account.

The Internal Revenue Service (IRS) and the Financial Industry Regulatory Authority (FINRA) have published some useful resources online; and, if you have *any* questions about estate planning, we encourage you to contact us for a free consultation.

An Inherited IRA Has Important Tax and Estate Planning Implications (FINRA)
Inherited IRAs – What You Need to Know (FINRA)
Retirement Topics – IRA Beneficiaries (IRS)

Schedule a Free Estate Planning Consultation Today

For more information about incorporating your IRA into your estate plan, contact the law offices of The Nordhaus Firm. To schedule a free consultation with an experienced estate planning lawyer in McKinney, please call (214) 726-1450 or contact us online today.