

Utilizing a Roth IRA in Your Estate Plan

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Roth IRAs have long been a popular tool for individuals to save for retirement, but how many people are aware that they can also be used as a key component of an estate plan?

Roth IRA contributions are made using “after-tax” dollars and contributions are not tax-deductible. However, the growing assets and withdrawals from a Roth IRA will be tax-free, offering a powerful tax advantage to those who qualify. To be eligible, for tax free withdrawals, your income must fall below certain levels. Not to worry: individuals whose income exceeds these levels can contribute to traditional (non-Roth) IRAs and convert them to Roth IRAs by paying a one-time tax. This creates an estate planning opportunity:

Unlike a traditional IRA, there is no requirement to receive distributions from a Roth IRA beginning at age 70 ½. Since Roth distributions are tax-free, there is no incentive for the government to demand a withdrawal of any funds. Thus, the balance in the account can be passed intact from one deceased spouse to another, and then to the next generation, continually growing tax-free over the course of what is likely to be many decades. Parents can therefore ensure that after they are gone, their children will be able to receive tax-free distributions either immediately or throughout their lifetimes.

There are numerous factors to consider and evaluate when planning an estate in general, especially when contemplating a Roth IRA conversion. Anchin possesses “Roth Conversion” software that is designed to analyze multiple factors and scenarios, which will provide you with the facts needed to make a well-informed decision. For more information, please contact Fred Barotz, a Tax Director in Anchin Private Client, at 212-840-3456, or fred.barotz@anchin.com.