

The “Daily Plan-It™”

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Tax Break for Inherited 401(k)s in 2007

It's a good feeling to leave a substantial amount of the income that you've accumulated over the years in your 401(k) plan to the people who mean the most to you. But it's frustrating if that inheritance also includes a tremendous tax hit, forcing your heirs to surrender a huge chunk of the money to the government.

In the past, if you inherited an employer-sponsored retirement plan—like a 401(k) or profit-sharing plan—from someone *other* than a spouse, you were looking at a potential tax headache. Most plans required that you withdraw the funds either immediately, or within a specified short period of time, which could cause significant tax consequences. After all, if you wanted to leave your hard-earned money to Uncle Sam, you would've named him as a beneficiary!

New and improved law

Thanks to new legislation passed by Congress at the end of the summer, beginning January 1, 2007, *anyone* who inherits an employer-sponsored retirement plan will be able to transfer the funds directly into an inherited IRA account. This will enable the heir to take advantage of the stretch IRA strategy, and spread withdrawals over the course of his or her life. This longer period of withdrawal will result in reduced taxes.

This is especially beneficial if you'd like to leave an inheritance to your grandchildren or another heir who is young. In the past, such beneficiaries would have been responsible to pay a very large amount in taxes. However, under the new rules, your young heirs will have the opportunity to stretch distributions out over a very long stretch—perhaps some 60 or 70 years—depending on their ages.

Other perks

The one thing to remember is that this doesn't go

into effect until next January 1st. However, if you are currently the owner of an inherited 401(k), you may be able to use this new tax break for any funds remaining in the account after the ball drops over Times Square. Before you do anything, it's imperative to speak with your financial advisor, to ensure that any movement of funds conforms to the law.

Naturally, you can also name a trust as a beneficiary of your 401(k). The new law also enables you to do this without significant tax consequences, as long as it's set up properly.

Benefits to all heirs

Youth has always had its advantages; now, add this new and improved provision to the list. Thanks to Congress, it soon will pay to be lucky enough to be an heir, no matter what your age.

Hoopes & Adams, PLC

From time to time, Hoopes & Adams hosts estate and business succession planning workshops to provide education on options, issues and concerns.

Please call for available dates and times.

Call us at **(480) 345-8845** or visit us at **www.halaw.com**

John Hoopes and Ron Adams are the founding members of Hoopes & Adams, PLC, an estate planning and business law firm. Their principal goal is to ensure clients and their loved ones are able to care for themselves and their family while alive and well and in the event of disability, and to then provide clients the confidence of knowing they are able to leave their estate to whom they want, when they want and in the way they want, all with fully disclosed and controlled settlement and administration costs.