

Your Guide to a Vibrant Lifestyle

Bay Area Edition

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# Living

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# IRA Owners Beware:

Do Not Get  
Caught In  
These  
Tax-Traps!

*Let  
Jim Sloan  
Help You  
Navigate*



One secret to saving for retirement is not how much you accumulate but how much of that money you and your family get to keep. If a chunk of that savings goes back to Uncle Sam, then all you have done is build a savings account for yourself and the government. If you want to keep what you have earned and possibly leverage that into much more, then you have to know how to take that money out the right way. This is commonly known as “retirement distribution planning” and is truly an art and specialty in itself.

Jim Sloan, local IRA distribution specialist and author of *How To Avoid HUGE IRA Tax-Traps*, says that “the tax rules regarding retirement distributions are complex, but you have to know them or be at risk of making Uncle Sam the main beneficiary of your hard work. Although the tax rules are filled with land mines and traps, they also provide you with a wealth of attractive tax incentives to keep your retirement funds growing tax-deferred, not only for your life, but potentially for decades or even generations after you’re gone.”

Mr. Sloan also warns that “the tax rules can cut either way; they can either cause your retirement savings to be gobbled up quickly in taxes or if you take advantage of them, they can be used to your favor and help create powerful wealth for you and your family.”

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LM: Why did you decide to write a book on avoiding IRA tax-traps?

JS: Over the next 10-15 years, there will be trillions of dollars in IRA accounts that will transfer to the next generation. Not only is this money taxable to the heirs, but also substantial taxes and penalties may be owed if the transfers are not facilitated according to the rules that the IRS has laid out. My book details some of the most common and costly mistakes and how someone can avoid them.

LM: How can an investor know if they are doing everything they can to avoid these tax-traps and still take advantage of all the tax benefits?

JS: Begin to ask lots of questions. Heinrich Heine (1797-1856), the German poet, once said that "experience is a good school, but the fees are high." That is so true of the tax rules on how to take your money out of a retirement account. This is one area where you cannot afford a bad experience because one wrong move can hinder a lifetime of disciplined savings. Your retirement savings is like an eggshell and if it cracks, it might not be able to be fixed.

LM: What is a common mistake made by IRA owners?

JS: I want to caution the readers that they may want to consult an expert regarding their unique IRA position. One of the most overlooked mistakes I often see in my practice is for someone to name their estate as the beneficiary of their IRA. And, many of the IRA owners weren't aware that they selected their estate by default. By doing this, your heirs lose a unique benefit that allows your IRA to be "stretched" over their lifetime. The reason is, unlike a real person, an estate does not have a life expectancy. This error could easily be checked and even if you have an advisor, you should visit with an IRA expert.


LM: How about another mistake?

JS: There is a term called Income in Respect to a Decedent (IRD). This IRD deduction is for the inheritor of an IRA to claim, which will offset somewhat the double-taxation. It is a deduction and not a credit, meaning that it will offset only a portion of the tax liability.

The IRD deduction is valuable to the beneficiary because it is usually about a 45 percent tax deduction of the amount withdrawn. For example, a \$250,000 IRA withdrawal by the beneficiary would yield a \$112,500 tax deduction ( $\$250,000 \times 45\%$ ). Would you be upset if you weren't informed or missed a \$112,500 tax deduction? A beneficiary would claim this deduction on Form 1040, Schedule A, as a miscellaneous itemized deduction. It is not subject to the Alternative Minimum Tax and it is not subject to the 2 percent AGI limit as are many other itemized deductions.

Many folks are simply unaware that this deduction exists and one of the biggest reasons is that the owners of large IRA accounts have not died yet. Be assured as time goes by and large IRAs are inherited, you will be hearing about this deduction much more than you do today but by then, will it be too late for you?

The laws governing retirement accounts are very complex and require a knowledgeable advisor to answer your questions. If you do not have a professional advisor or your advisor doesn't know or understand the complex rules pertaining to IRA distribution planning (and many don't), Mr. Sloan offers those that are within a few years of retirement or already retired a complimentary visit to receive an IRA Rehabilitation Analysis. This analysis would determine if there are any deficiencies in your retirement accounts or IRAs and would identify all potential tax or money-saving strategies that you and your existing advisor didn't know existed. To request your complimentary visit to receive your IRA Rehabilitation Analysis, contact Mr. Sloan's firm, Senior Money Management LLC, via phone **281-648-4658** or e-mail **jim@jimsloan.com**.

*Jim E. Sloan is president of Senior Money Management LLC, an investment advisory firm, opened in 1996, and located in Friendswood, Texas. Mr. Sloan has written a book titled How To Avoid HUGE IRA Tax-Traps. Jim's book is available at amazon.com and barnesandnoble.com. This article is not intended as tax or legal advice. Please consult with a professional advisor for your particular situation. Securities offered through Kalos Capital, Inc. and Investment Advisory Services offered through Kalos Management, Inc., both at 3780 Mansell Rd. Ste. 150, Alpharetta, GA 30022, ph.678.356.1100. Senior Money Management LLC is not affiliated with Kalos Capital, Inc or Kalos Management, Inc. *

