The Biggest Tax Break You'll Never Hear About

Q: I received a notice about the new IRA laws and how to stretch them out. I am trying to leave money to my 32-year-old son. What am I supposed to do?

A: There are new IRA tax laws that most people have not yet read or heard about that dramatically affect an inheritance. They have been called "the biggest break in the tax code."

Under the old IRA laws, a spouse who inherited an IRA was able to appropriately "stretch" an IRA, so that income tax on the IRA could be deferred. Under the new IRA laws, this benefit is now extended to your children as well. It appears that everyone is just now discussing what an enormous tax break this represents.

For example, suppose that when you die your son inherits an IRA worth $100,000 (either directly or through a Trust you have created). Rather than being compelled to take the IRA money, he can now stretch this IRA money over his lifetime.

Your son will receive about $2.5 million in IRA income over the course of his lifetime (that's right -- $2.5 million just from this IRA)! This is a huge change in the tax law.

There is only one requirement involved: an "election" must be made in order for your son to take advantage of this tax break. Consult with your estate planning attorney so that you fully understand what is at stake under the new IRA tax laws.

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Attorney Christopher Desimone is managing partner of Anderson & Desimone PC of Roanoke, Virginia. He focuses 100% of his law practice on estate planning. (540) 776-6434.