

# ***The “Daily Plan-It™”***

*SHUMATE BROKERAGE CORP.*

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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.

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