



LARGE IRAS: 3 KEY PLANNING OPPORTUNITIES



There are several planning avenues for tax-efficient strategies related to traditional IRAs. While we won't provide an all-inclusive examination of those techniques here, these pages will explore three of the primary tax planning opportunities with traditional IRAs of at least \$1 million.

Among the strategies outlined here, two focus on shifting the characteristics of the tax on the IRA, from tax-deferred to nontaxable, while the third is directed toward extending the withdrawal period of IRAs with a value of \$2 million or more.





STRATEGY #1: PARTIAL ROTH CONVERSION

This strategy can be useful for those who believe tax rates will be higher in the future than when they make the conversion and/or those who would like to reduce future required minimum distributions (RMDs). If future tax rates rise following the conversion of a portion of the IRA funds, the result is a tax savings for the account owner. If taxes remain the same rate, the owner simply breaks even, but if tax rates are lower after conversion, the result would be an increase in taxes paid.

Tax Rates' Effect Post-Conversion

Tax rates higher = **Win**

Tax rates same = **Neutral**

Tax rates lower = **Fail**

The conversion will result in income taxes payable in the year of conversion. The remittance for the taxes due should be paid from a non-qualified account (e.g., checking account or personal brokerage account), rather than from the traditional IRA, which would result in additional income taxes and reduce the size of the Roth IRA. By paying the taxes with non-qualified dollars, the non-qualified account is reduced, but the amount of the combined IRAs (traditional and Roth) remains unchanged.

If there is a comfort level with incurring a liability in exchange for the potential of locking in a lower tax rate, then an additional strategy that also uses a tax-free asset with greater certainty around the outcomes should be considered.

Please remember that converting an employer plan account to a Roth IRA is a taxable event. Increased taxable income from the Roth IRA conversion may have several consequences. Be sure to consult with a qualified tax advisor before making any decisions regarding your IRA.





STRATEGY #2: LIFE INSURANCE AS A ROTH ALTERNATIVE

In this strategy, the same amount of money that would have been spent to pay the immediate tax liability from completing the Roth conversion is instead used to purchase life insurance. Like funds in a Roth IRA, life insurance cash values and death benefits are generally nontaxable. However, by purchasing life insurance, the owner gains an additional asset (cash value and death benefit) rather than incurring a straight liability. Also, the potential for tax savings is typically greater as it is not dependent on future tax rates.

These first two strategies compete directly with each other, although they are not mutually exclusive. Even if a Roth conversion is chosen, life insurance can still be a good option for using a portion of any unneeded RMD distributions. Using the unneeded distributions to pay life insurance premiums creates a separate tax-free accumulation and death benefit opportunity for income and estate tax planning.

Technique	When to Implement
Roth conversions	Before start of RMDs
Life insurance as a Roth alternative	Before or after start of RMDs
Revocable trust naming IRA to CRUT at survivor's death	Anytime

STRATEGY #3:

CONTRIBUTE IRA TO A CRUT AT DEATH

This is an estate planning technique to extend the duration of a large IRA beyond the limitations of the 10-year rule set forth in the SECURE Act for non-spouse beneficiaries.¹ Generally, this is most effective for IRAs that are \$2 million or more in value.

By establishing a new — or amending an existing — revocable trust to include language that creates a Charitable Remainder Unitrust (CRUT) funded by the IRA at the death of a surviving spouse, if married, or the death of the owner, if unmarried, we are able to extend the IRA distributions up to a term of 20 years or, if chosen, the lifetime of the heirs. A third option would extend the IRA for the lifetime of the heirs plus 20 years.²



A CRUT is a type of split-interest trust, meaning multiple parties benefit: in this case, the charity and the heirs. A CRUT can be configured so that the charity expects to receive a 10% interest at the conclusion of the trust while the heirs' total income stream is worth 90% percent of the trust's value.³ The annual income distributions are based on a fixed percentage payout of the assets of the trust.

As the trust account grows in value, the fixed payments increase; should the trust decrease in value, payments will be reduced respectively. Distributions from the CRUT are income taxable in the same manner as income generated outside of the CRUT.

Whether the owner is charitably inclined or not, the ability to double the duration of the trust from 10 to 20 years makes this strategy one that should be considered.



CONCLUSION

Through careful consideration and strategic planning, IRA owners can preserve their legacy and optimize the benefits for their heirs under the current tax laws. The unique circumstances of each individual or family will dictate which planning technique(s) will be most advantageous.

¹ Kiplinger.com. "The 10-Year Rule for Inherited IRAs." Joy Taylor. Nov. 12, 2024. <https://www.kiplinger.com/taxes/irs-10-year-rule-for-inherited-iras-kiplinger-tax-letter#:~:text=Profit%20and%20prosper%20with%20the,years%20younger%20than%20the%20decedent.> Accessed Feb. 12, 2025.

^{2,3} Legal Information Institute, Cornell Law School. "26 U.S. Code 664 - Charitable remainder trusts." <https://www.law.cornell.edu/uscode/text/26/664>. Accessed Feb. 12, 2025.





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