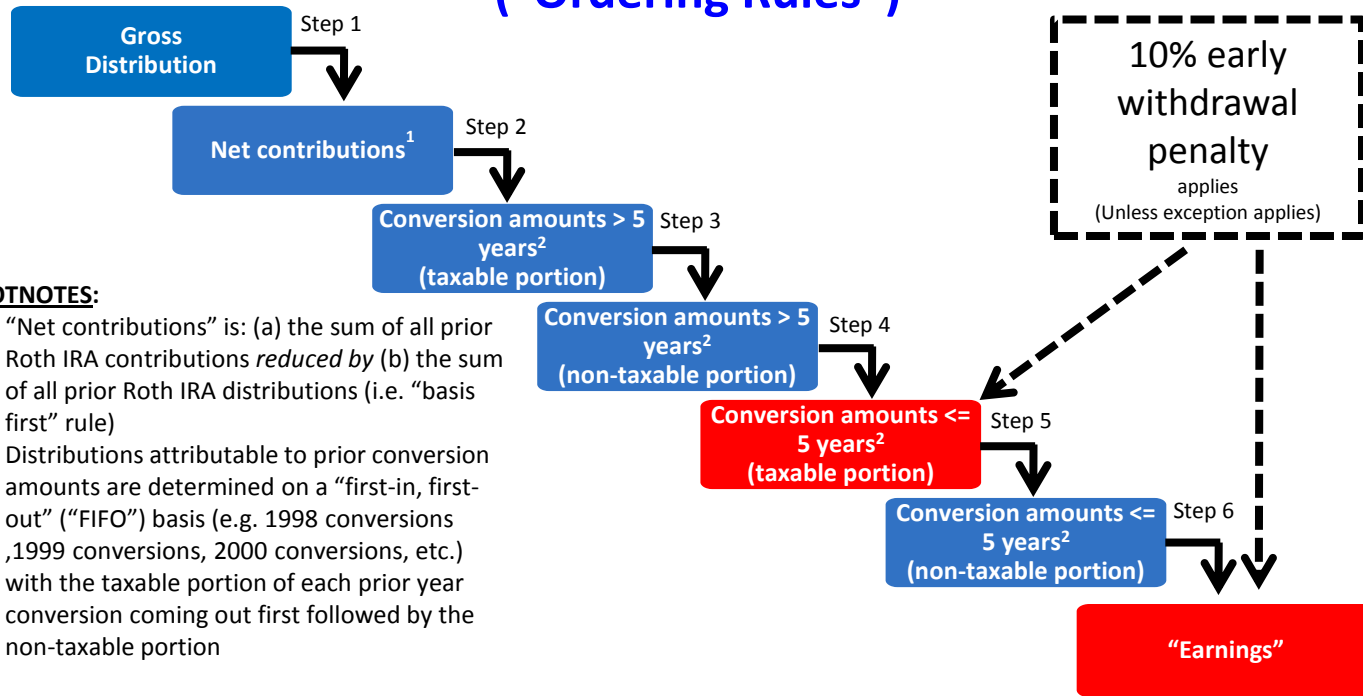


# Roth IRA

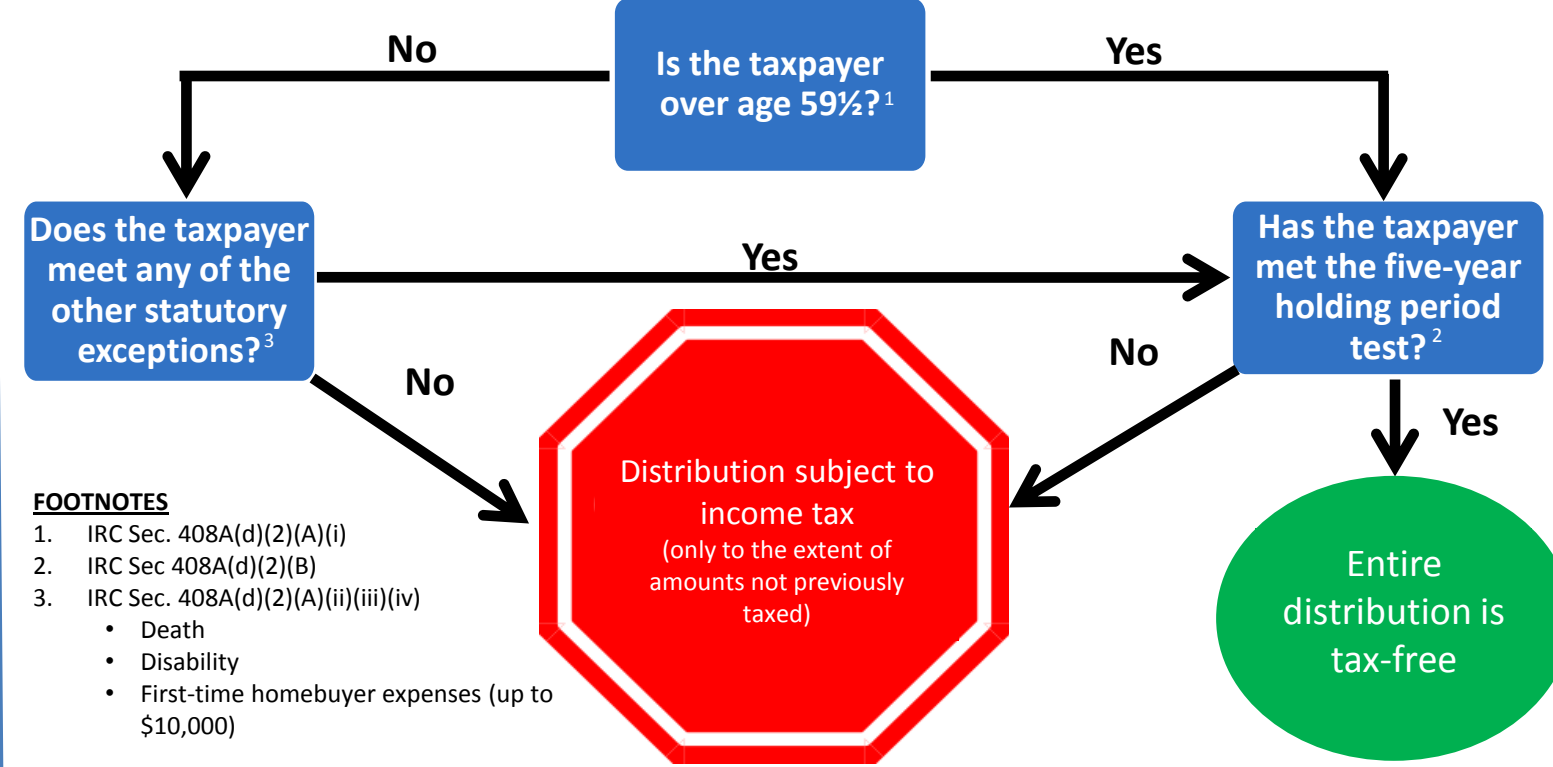
## Roth IRA - Application of 10% Early Withdrawal Penalty ("Ordering Rules")



**FOOTNOTES:**

1. "Net contributions" is: (a) the sum of all prior Roth IRA contributions reduced by (b) the sum of all prior Roth IRA distributions (i.e. "basis first" rule)
2. Distributions attributable to prior conversion amounts are determined on a "first-in, first-out" ("FIFO") basis (e.g. 1998 conversions, 1999 conversions, 2000 conversions, etc.) with the taxable portion of each prior year conversion coming out first followed by the non-taxable portion

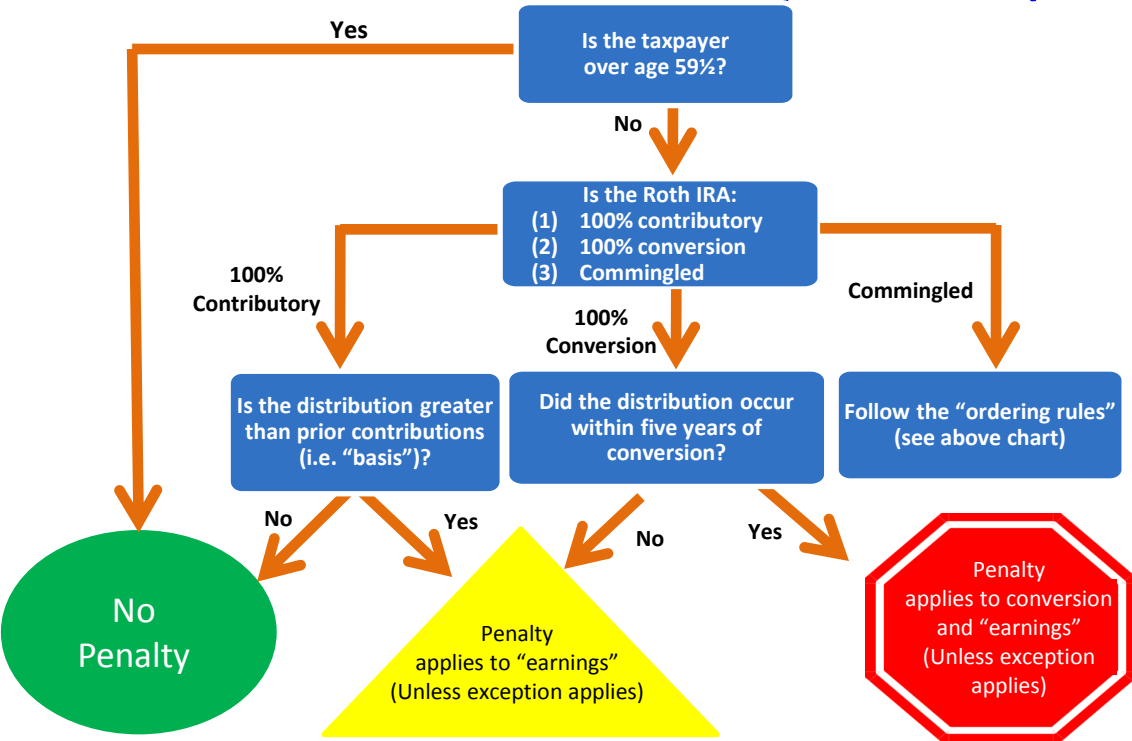
## Roth IRA - Taxability of Distributions ("Seasoning Rule")



**FOOTNOTES**

1. IRC Sec. 408A(d)(2)(A)(i)
2. IRC Sec 408A(d)(2)(B)
3. IRC Sec. 408A(d)(2)(A)(ii)(iii)(iv)
  - Death
  - Disability
  - First-time homebuyer expenses (up to \$10,000)

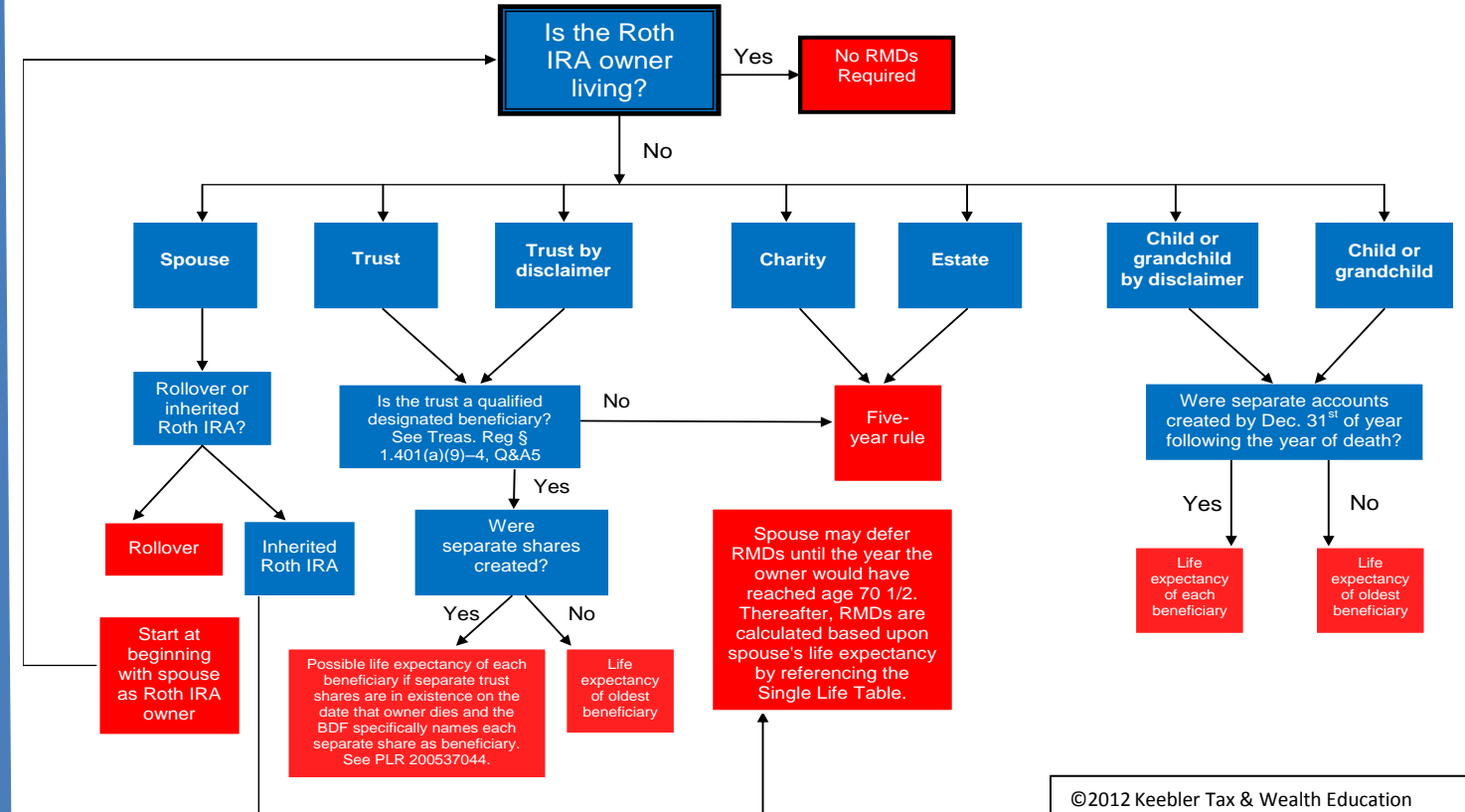
## Roth IRA - Application of 10% Early Withdrawal Penalty ("Penalty Box Rule")



**Exceptions to 10% early withdrawal penalty :**

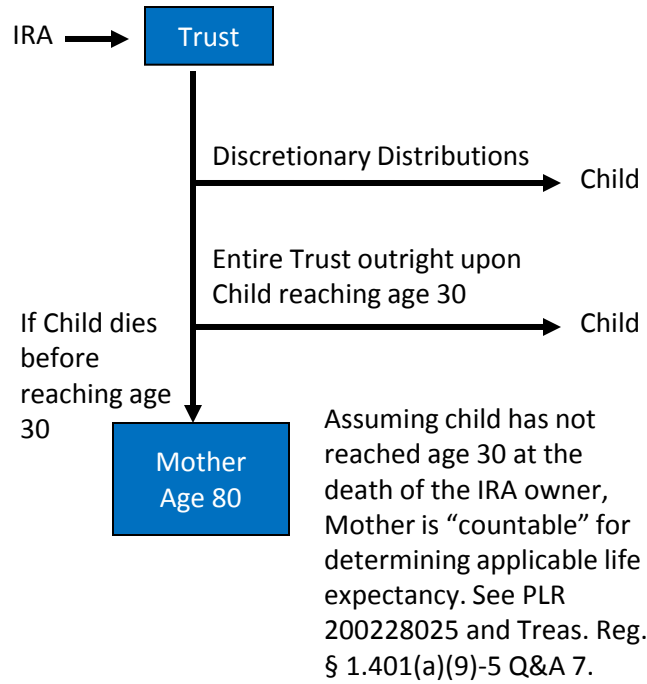
1. Death
2. Disability
3. Series of substantially equal periodic payments
4. Medical expenses greater than 7.5% AGI
5. Health insurance premiums for unemployed individuals
6. Higher education expenses
7. First-time homebuyer expenses (up to \$10K)

## Roth IRA Distribution Chart

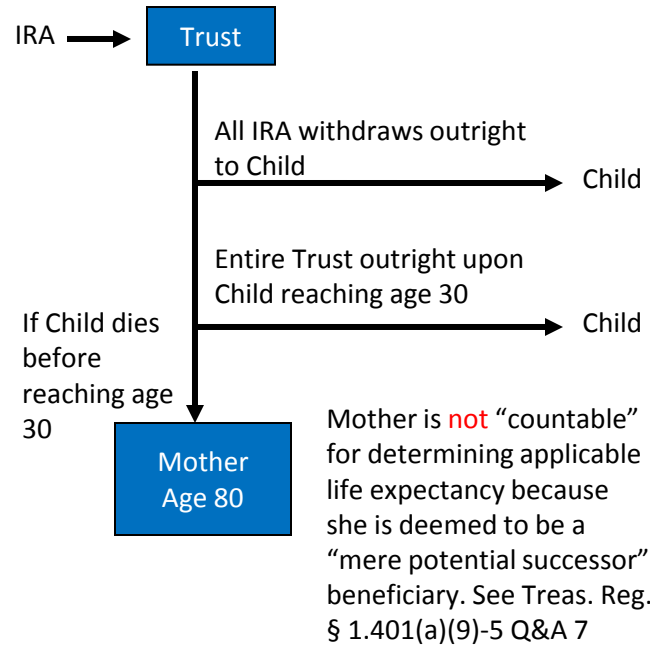


# Trust Distribution

## Accumulation Trust – Example



## Conduit Trust – Example



# Roth IRA Summary

**Inherited Spousal Beneficiary**

Roth IRA: Spouse may defer required distributions until the year the owner would have reached age 70 1/2. Thereafter, RMDs are calculated based upon spouse's life expectancy by referencing her attained age for the year of distribution based on the Single Life Table in A-1 of Treas. Reg. § 1.401(a)(9)-9. For each succeeding year, this process is repeated.

**Non-Designated Beneficiary**

Death Before RBD: Entire balance must be distributed no later than December 31st of the fifth anniversary year of the decedent's death. **However, consider (if possible) the potential to cash out non-individual beneficiaries, or segregate interests. PLR required.**

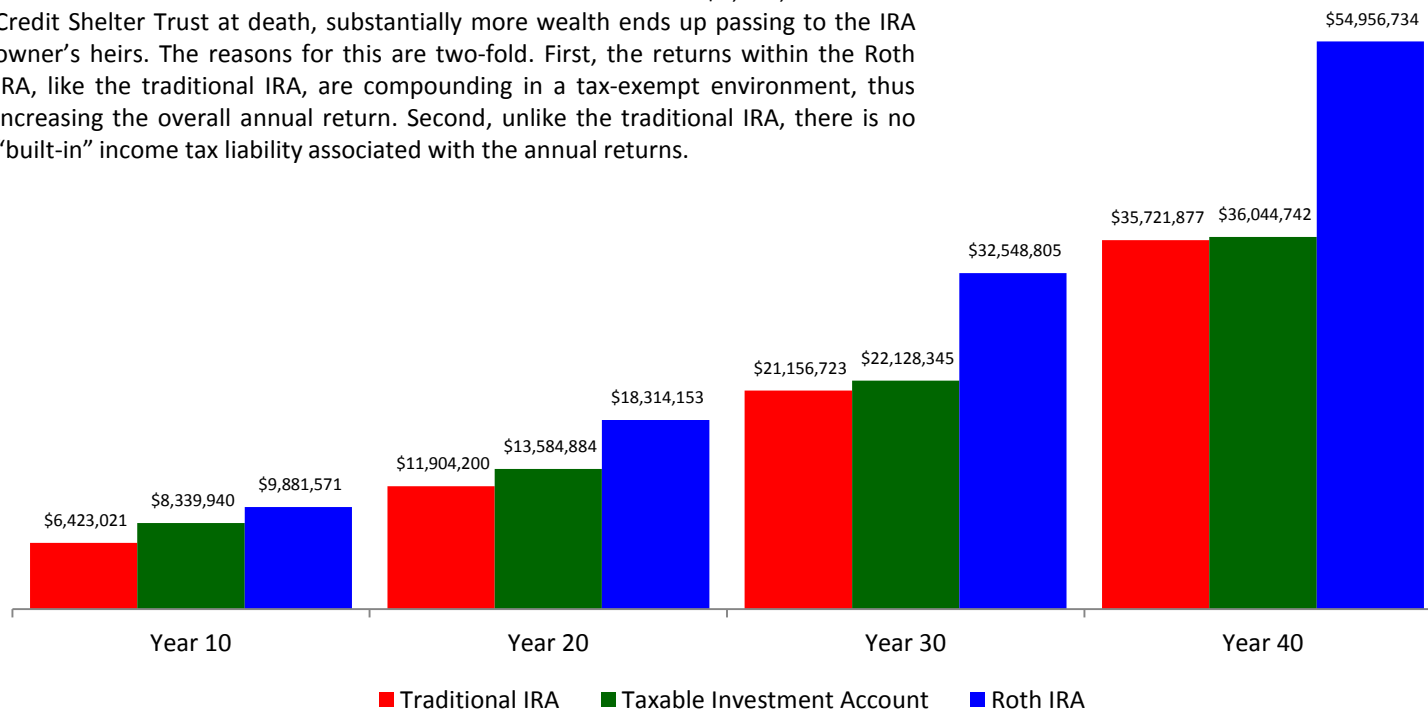
**Spousal Rollover**

Roth IRA: If the spouse rolls over the Roth IRA into a Roth IRA in his/her own name, no required minimum distributions are required during the surviving spouse's lifetime.

A-1 of Treas. Reg § 1.401(a)(9)-9					
Single Life Table					
Age	Multiple	Age	Multiple	Age	Multiple
0	82.4	37	46.5	74	14.1
1	81.6	38	45.6	75	13.4
2	80.6	39	44.6	76	12.7
3	79.7	40	43.6	77	12.1
4	78.7	41	42.7	78	11.4
5	77.7	42	41.7	79	10.8
6	76.7	43	40.7	80	10.2
7	75.8	44	39.8	81	9.7
8	74.8	45	38.8	82	9.1
9	73.8	46	37.9	83	8.6
10	72.8	47	37.0	84	8.1
11	71.8	48	36.0	85	7.6
12	70.8	49	35.1	86	7.1
13	69.9	50	34.2	87	6.7
14	68.9	51	33.3	88	6.3
15	67.9	52	32.3	89	5.9
16	66.9	53	31.4	90	5.5
17	66.0	54	30.5	91	5.2
18	65.0	55	29.6	92	4.9
19	64.0	56	28.7	93	4.6
20	63.0	57	27.9	94	4.3
21	62.1	58	27.0	95	4.1
22	61.1	59	26.1	96	3.8
23	60.1	60	25.2	97	3.6
24	59.1	61	24.4	98	3.4
25	58.2	62	23.5	99	3.1
26	57.2	63	22.7	100	2.9
27	56.2	64	21.8	101	2.7
28	55.3	65	21.0	102	2.5
29	54.3	66	20.2	103	2.3
30	53.3	67	19.4	104	2.1
31	52.4	68	18.6	105	1.9
32	51.4	69	17.8	106	1.7
33	50.4	70	17.0	107	1.5
34	49.4	71	16.3	108	1.4
35	48.5	72	15.5	109	1.2
36	47.5	73	14.8	110	1.1
				111	1.0

# Roth Bypass Trust Chart

The chart below illustrates that if a Roth IRA is used to fund a \$5,120,000 Unified Credit Shelter Trust at death, substantially more wealth ends up passing to the IRA owner's heirs. The reasons for this are two-fold. First, the returns within the Roth IRA, like the traditional IRA, are compounding in a tax-exempt environment, thus increasing the overall annual return. Second, unlike the traditional IRA, there is no "built-in" income tax liability associated with the annual returns.



# Four Requirements for ALL Trusts to Qualify as a Designated Beneficiary

- Trust is valid under state law - Treas. Reg. § 1.401(a)(9)-4, Q&A 5(b)(1)
- Trust is irrevocable upon death of owner - Treas. Reg. § 1.401(a)(9)-4, Q&A 5(b)(2)
- Beneficiaries of the trust are identifiable from the trust instrument - Treas. Reg. § 1.401(a)(9)-4, Q&A 5(b)(3)
- Documentation requirement is satisfied - Treas. Reg. § 1.401(a)(9)-4, Q&A 5(b)(4)

Note: Designated Beneficiary not determined until September 30 of the year following the year of the IRA owner's death. Treas. Reg. § 1.401(a)(9)-4, Q&A 4(a). Allows for post-mortem planning, such as utilizing disclaimers and cashing out undesirable beneficiaries.

## Two Types of Trusts

- Accumulation Trusts – A trust that allows retirement plan distribution to accumulate within the trust rather than be paid out to the trust beneficiary.
- Conduit Trusts – A trust that requires any and all retirement plan distributions to be paid outright to the trust beneficiary.

• Treas. Reg. § 1.401(a)(9)-4, Q&A 5 requirements apply to both types

## Key Rulings

- PLR 200537044 – Separate share treatment allowed when trust is beneficiary if beneficiary designation form specifically names each trust share as beneficiary rather than only naming main trust as beneficiary.
- PLR 200644022 - If IRA owner dies before age 70 1/2 naming conduit trust f/b/o spouse as beneficiary and spouse dies before IRA owner would have been 70 1/2, 5-year rule may apply.
- CCA 200644020 – Pecuniary bequest to charity caused acceleration of income for IRA and no 642(c) deduction because terms of trust did not direct or require that the trustee pay the pecuniary legacies from the trust's gross income.