



Knowledge is Power

Question of the Month - October

“Hello, Brian. My father recently passed away and left his estate to my brother and me. The estate included an annuity. What will the tax situation be for us on this annuity money? Do we have to pay taxes on it, and if so, how much? Thanks, Julia”

Hi, Julia, very good question! Inheriting money can be a complicated thing, especially when it comes to taxes. This is because some types of money are inherited completely tax free; some inherited money will be partially taxable and some inherited money will be fully taxable to the person inheriting the money. So, determining whether it will be taxable or not really depends on the type of asset that you are inheriting.

If the annuity you are inheriting is considered to be an IRA annuity, in other words, it was funded with retirement savings dollars, then it will be fully taxable to you at ordinary income tax rates. However, if you act in the right amount of time and do the proper paperwork, then you can set up what is called a stretch IRA for the money. This will enable you to pay taxes on it over time as you draw the money out of the account. You will be required to draw a small amount out each year and just pay taxes on only that amount. An inherited IRA puts you in control of when you pay taxes on the money and prevents it from all being taxed in one year.

If the annuity is a non-qualified annuity, then it could be partially taxable to you. With a non-qualified annuity, there is what is called a “tax basis” inside of the annuity. The tax basis is what your father purchased the annuity for, in other words, the amount of money he contributed to the annuity. The tax basis portion is non-taxable to you. However, anything above the tax basis is taxable to you at ordinary income tax rates.

So, again, determining whether it will be taxable or not will depend on the type of annuity you inherit, which is why it is helpful to work with a retirement professional, who has a lot of expertise in retirement and estate planning. If you need help in determining this, please feel free to reach out to us. We can inform you about the specifics of your annuity and the best way possible to minimize the taxes, if it is taxable to you.

Please join me this weekend on The Retirement Money Matters show as we answer many more retirement-related questions. The show airs Saturday afternoon at 4 on WFRN (93.7 FM), Sunday morning at 8:00 on WWKI (100.5 FM) or anytime online at www.theretirementmoneymattersshow.com. You can also obtain this information by reaching out to us at Hayes Advisory Group at 452-PLAN (7526), 800-939-1603 or brian@hayesadvisorygroup.com.

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