LIFE & DEATH TAXATION Of Deferred Annuities

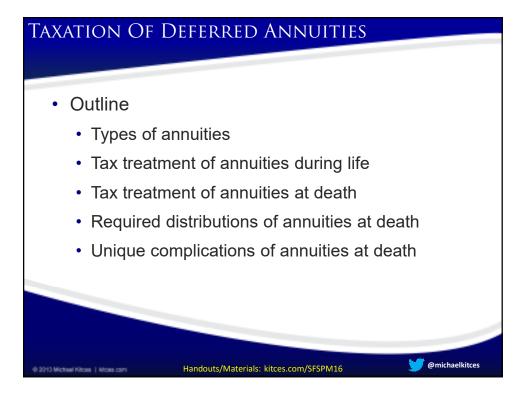
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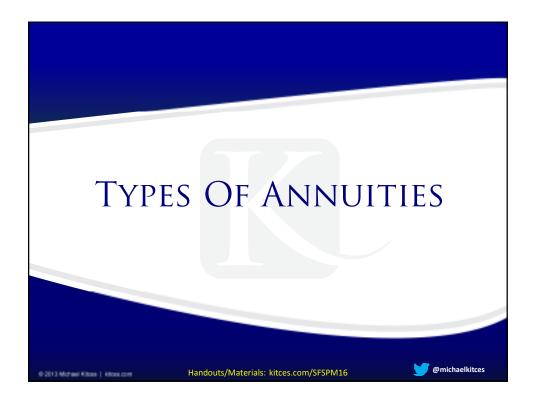
MICHAEL E. KITCES

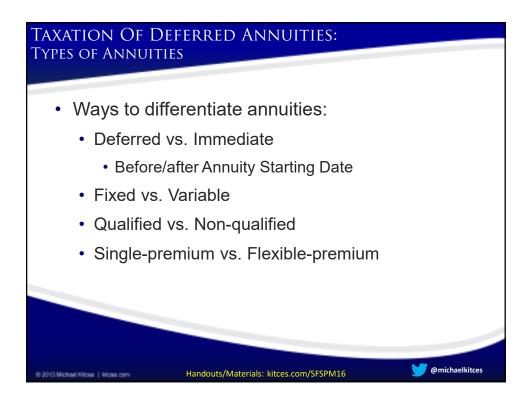
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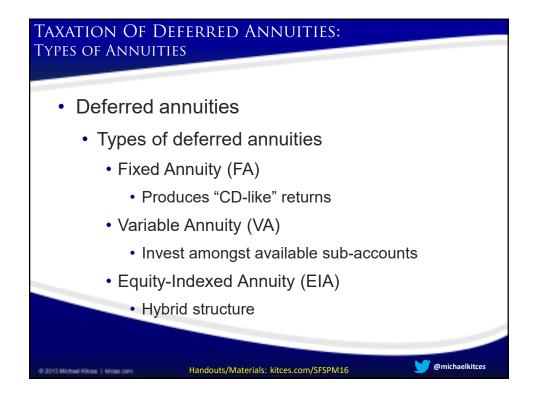


Handouts/Additional Materials at: kitces.com/SFSPM16

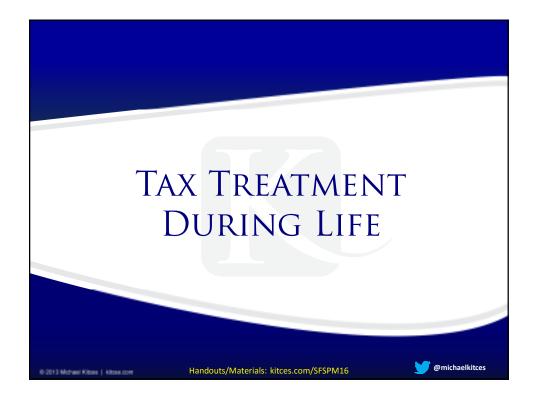


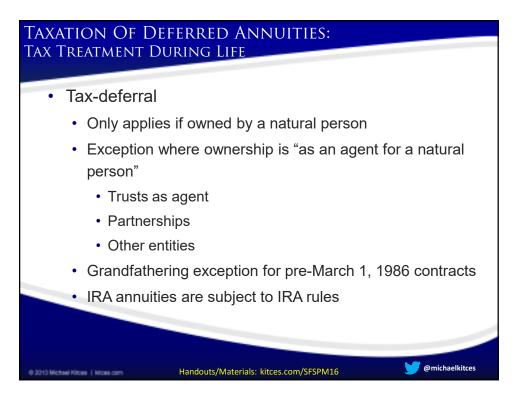




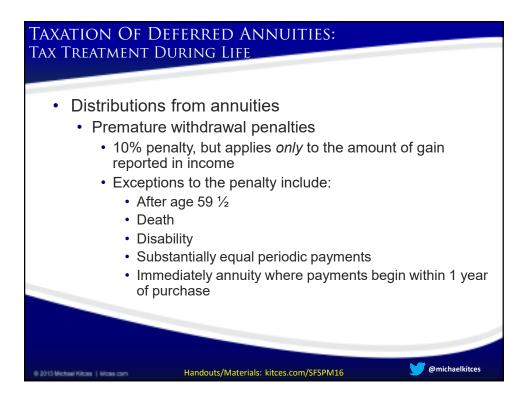


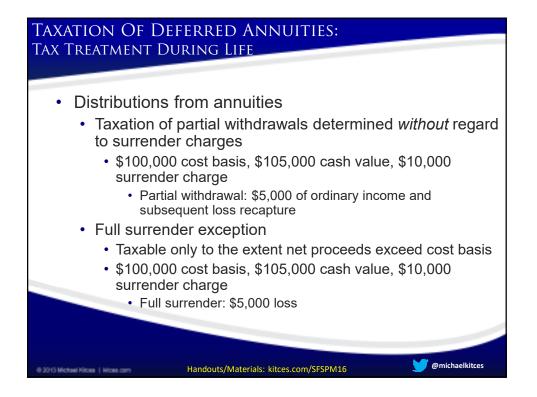


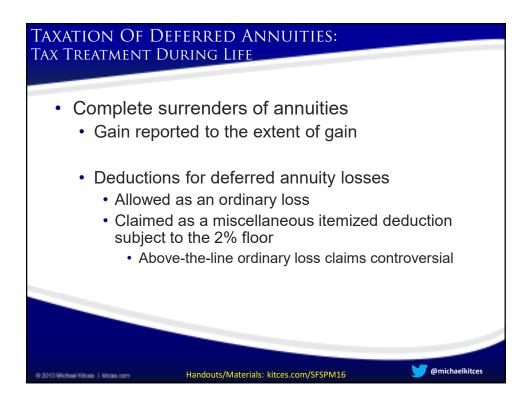










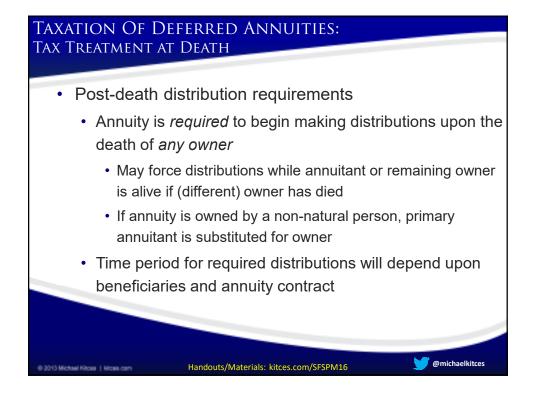


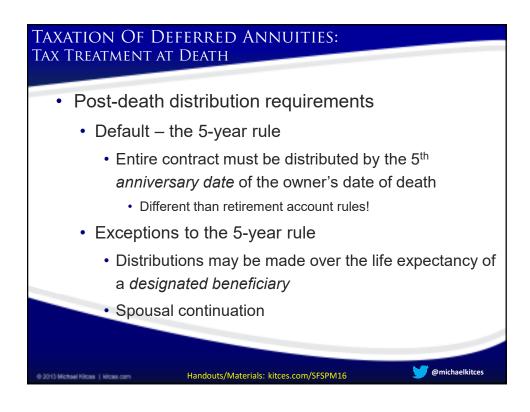


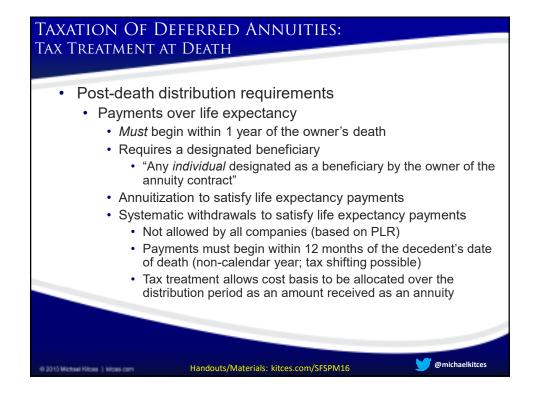
TAXATION OF DEFERRED ANNUITIES: Tax Treatment at Death

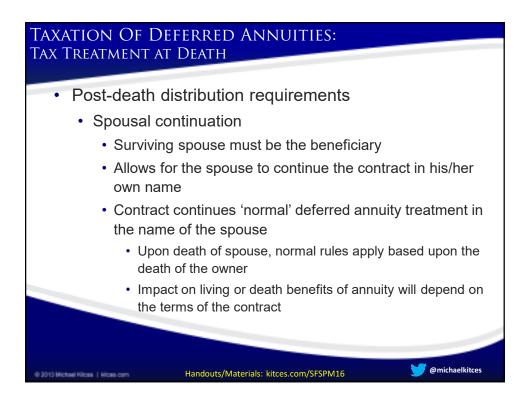
- Contract remains in current form
 - Estate tax valuation based on cash surrender value
 - · May include adjustments due to death itself
 - Post-death distributions continue to be treated as amounts not received as an annuity, unless annuitized by beneficiary
 - · Rules requiring distributions from annuity after death

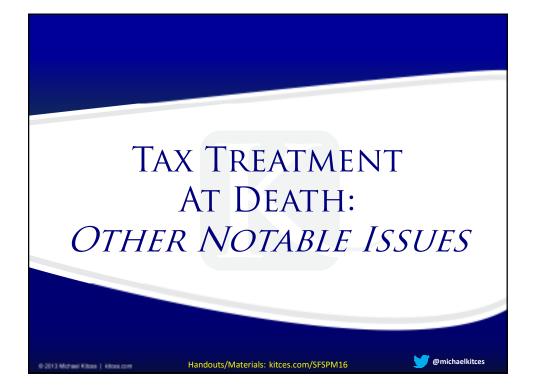
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TAXATION OF DEFERRED ANNUITIES: Other Issues at Death

Other notable items

• Income in Respect of a Decedent

· Annuities are treated as IRD amounts

Post-death distributions may provide for an IRD income tax deduction

• Be cautious of post-death assignments of benefits that trigger IRD recognition

Assignments from estate to estate beneficiary or trust to trust beneficiary

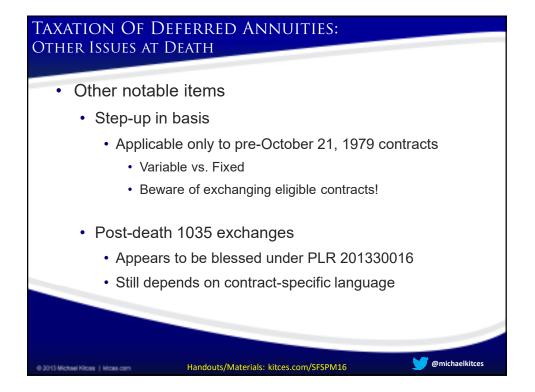
· Must have ability to make non-pro rata and in-kind distributions

 Be cautious of satisfying pecuniary bequests; cross-application of IRA-based rulings

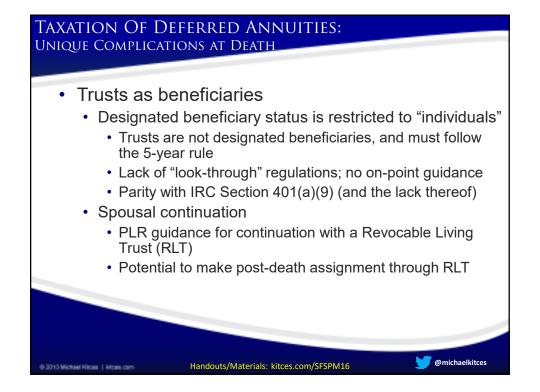
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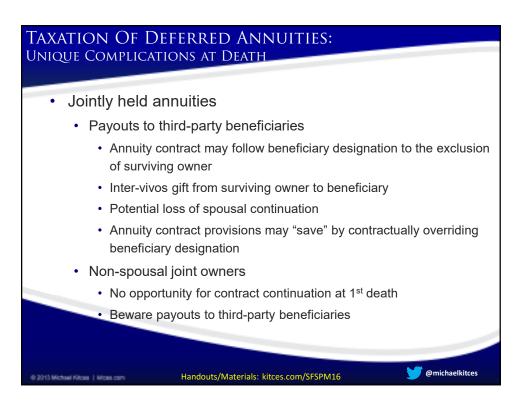
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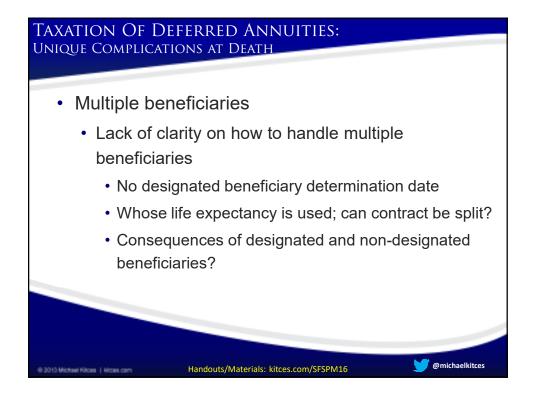
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Taxation Of Deferred Annuities: Summary

• Summary

- · Annuities have a unique tax structure of their own
- Be aware of both tax treatment and potential for grandfathered tax rules
- Be certain to have all of the information before you act
- Consider addressing problem situations before death, if possible (e.g., trusts as beneficiaries, ownership structuring issues, etc.)

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