

Golden Bullets

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ANNUITY TAX RULES HAVE NEVER BEEN BETTER:

THINGS TO CONSIDER

Nonqualified deferred annuities (NQDAs) are an important financial tool for many of our clients. Even though they do not offer the same tax-free death benefit or tax-advantaged access to cash values as life insurance, NQDAs grow tax deferred.

Even though annuities seem straightforward from a federal income tax perspective, they had their share of tax ambiguity. Recently, the IRS published a private letter ruling addressing some of the unanswered questions.

In Private Letter Ruling (PLR) 202031008, the Service was asked several questions about **trust-owned annuities**.

- Do NQDAs owned by trusts still get tax-deferred cash buildup?
- Can a trust created by an older person own an annuity contract on a younger person's life?
- How can the **10 percent pre-59 ½ extra tax on taxable distributions** be avoided?
- When must distributions from an annuity contract begin?
- What kind of **trust language** is most favorable to annuity ownership?

The IRS answered most of these questions favorably and clearly. In light of the PLR, We expect trust-owned NQDAs to become more popular than they have been in the past.

All kinds of trusts may be candidates to own NQDAs:

- Asset protection trust
- Medicaid trust
- Trust recently created at a person's death
- Revocable trust created by an older person

Having said that, not every annuity should be owned by a trust. Most of the time, it will make sense for an individual to own an NQDA, and to name one or more individuals the beneficiary upon the owner's death.

Do you own one or more nonqualified annuities? Do you wonder whether ownership and beneficiary designation are correct? Are you the trustee or beneficiary of a trust, and have questions about trust investments? We would be glad to answer your questions.

AS ALWAYS, PLEASE FEEL FREE TO CALL TO DISCUSS THESE OR OTHER FINANCIAL SECURITY ISSUES OF CONCERN.

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