

Re: how to compare living standards

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- *From:* "Jim Blair" <jeb@xxxxxxx>
 - *Date:* Tue, 18 Apr 2006 12:58:45 -0500
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"William F Hummel" <wfhummel@xxxxxxxxxxx> wrote in message
<news:re1a42tnof3mroi hkvjfnqu179o795d9p1@xxxxxxxxxxx>

.....

As a general rule, your estate should be the beneficiary of your IRA, not your spouse. As for IRA distributions, you must pay income tax as ordinary income. And if the residual after tax, when added to the estate, causes the value of your estate to exceed the exemption limit, your heirs will have to pay a Federal estate tax on the excess amount. Of course that assumes you don't spend any of the money from the IRA distributions during your lifetime, which is highly unlikely.

Hi,

I would like to live long enough to spend it all ;-).

(And die broke--saying it that way does not sound as good :-)

I plan to take the minimum distribution required by the IRS (since I will soon be 70.5) and was suprised to see that the total value will continue to increase for many years, as will my annual payments. (but maybe not in real dollars) My annual nominal distribution won't decline until I am about 95, so I better get my wild partying out of my system before then.

Regarding the overall tax rate on IRA distributions, the figure of 80% you were quoted is quite unrealistic. That would obtain if you pay the maximum income tax rate of 35% on your IRA distributions and your heirs pay the maximum estate tax rate of 47%, totaling 82%. To be in that tax bracket your taxable income would have to be over \$88,000 (filing jointly), and your estate on the death of the second spouse would have to exceed the exemption limit (currently \$2 million) by \$2 million. That is, your estate would have to be worth more than \$4 million.

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jeb:

But it would take a lot of \$5M estates relative to \$100M ones to result in an average of 12.5%. I think the popular impression is that

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estate tax collects from the very rich, not from those at the upper edge

of

the "middle class".

I wouldn't call a family with assets of \$5 million "middle class."

The term "middle class" can mean just about anyone. Read some survey where that over 90% of Americans consider themselves to be middle class.

Middle class is someone who has to make serious choices about what something costs, and perhaps have to finance the purchase of a car rather than paying cash for it.

I think a lot of people who lived as you describe for their first 50 or 60 years discover that because of their house and IRA's and such they have become those rich that they always envied.

The heirs of the very rich have numerous ways to reduce the high estate tax rate, and still enjoy many of the benefits of the largesse.

Yes. That was my main point in all of this discussion. If you have the money and pay the estate planners and lawyers, you can.

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