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Creating Estate Tax Savings For Your Child Using A Roth IRA

By Richard A. Chapo

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Parents must give serious thought to protecting their family through estate tax planning. While life insurance and trusts should be a part of every plan, Roth IRAs can be a simple tool for passing money to your child on a tax-free basis.

Roth IRA

First, we need a quick summary of the Roth IRA. A Roth IRA is an after-tax retirement vehicle that produces huge tax savings because all tax distributions are tax-free. That statement can be a bit confusing, so let's break it down. The downside of a Roth IRA is the fact that contributions are not tax deductible as with traditional IRAs or 401(k)s. The upside of a Roth IRA, however, is that all distributions are tax-free once the person reaches the age of 59½. So how can you use a Roth IRA to pass money to your child?

Opening A Roth IRA For Your Child

One of the biggest keys to retirement planning is "time". The more years you spend saving money for retirement, the more you should have when that blessed day arrives. Imagine if you had started saving for retirement when you were 16. How much bigger would your retirement nest egg be? What if you purchased Microsoft stock in 1990 and watched it split eight times? Okay, that was a painful example if you missed that opportunity. Nonetheless, why not do for your child what you didn't do for yourself?

The fundamental goal of estate planning is to pass as much of your estate as possible to your family on a tax-free basis. You can transfer relatively small amounts of money to your child now. If you have a 16 year-old child with a Roth IRA, you can contribute \$4,000 in 2005. That \$4,000 is going to grow tax-free for 43 years and be worth quite a bit. A ten percent return would result in the account growing to roughly \$200,000 and the full amount would be distributed tax-free. There are other practical advantages to opening a Roth IRA for your child.

As a parent, it is vital that you teach your child the value

of money. Opening a Roth IRA gives you the opportunity to sit down and teach your child the value of saving and investing, instead of yelling at them to clean their room. While a parental lecture on the need to save money would typically meet with glassy eyes and yawns, your child's attitude will undoubtedly change when you are talking about their money.

Work and Maturity Issues

Before you rush out to open a Roth IRA for your child, you must determine if your child is eligible to open an account. To open an account, your son or daughter must be working at least part time for an employer that reports their wages to the IRS. Hiring your child to take out the trash each week is not going to cut it, nor will this strategy work for your 5 year-old. Many teenagers, however, have summer jobs that should suffice for IRS consideration. To avoid any trouble, you should consult with your tax advisor.

A more sublime issue concerns the maturity level of your child. Keep in mind that the Roth IRA will be opened in their name. Your son or daughter will have the legal right to do what they will with the account. It is strongly suggested that you clearly explain the consequences of taking money out of the account [taxes, penalties, being cut out of the will, forced to eat healthy food, grounded for life, etc.] but the decision lies with them. As difficult as it is, try to be objective in evaluating how your child will react to having money sit in an account. If you have doubts, you should probably investigate other tax saving strategies.

Opening a Roth IRA for your child can be a very effective means of leveraging your estate. If your child exercises restraint, your relatively small contribution to their Roth IRA can grow into a sizeable tax-free nest egg.

Richard Chapo is CEO of <http://www.businessstaxrecovery.com> – Obtaining tax refunds for small businesses by finding overlooked tax deductions and credits through a free tax return review.

Did You Know You Can Invest Your Roth IRA Into Real Estate, Business, And More?

By Robert Hubbard

A new popular trend with a Roth IRA is to take the funds out and invest them into real estate, businesses, tax liens, and more. An IRA called a self directed IRA is created, and an LLC (Limited Liability Company) or a C-Corporation is formed. Once it is setup the funds are available in a checking account and are ready to invest. Many people find that they are able to earn a higher return on their current retirement investments.

A Roth IRA is just one type of Individual Retirement Account (IRA). With a Roth IRA contributions to the account are not tax deductible, but "qualified" withdrawals from the account are not taxable either. A "qualified" distribution from a Roth IRA is a withdrawal made after the taxpayer attains age 59 ½. Also a Roth IRA is qualified if it is made to a beneficiary after the taxpayer's death, made because the tax payer is disabled, or made by a first-time homebuyer to acquire their original residence.

Distributions from a Roth IRA can be made after the owner reaches 70 ½.

Currently with a Roth IRA there is an income ceiling where you can't invest in a Roth IRA if your single and your adjusted gross income is higher than \$95,000, or \$150,000. The amount you can contribute to a Roth IRA reaches zero for incomes of \$110,000 for single people and \$160,000 for those who are married. There are proposals to remove the ceiling.

It is quite common for individuals take the money out to purchase real estate property to resell or rent out. Raw land, apartments, single family homes and duplexes are other common real estate investments that can be purchased with an IRA. You may also prefer to invest in commercial properties such as warehouses, office buildings and retail spaces. People also take the money out to start their own business, or to simply invest in another business venture. The primary advantage to withdrawing your IRA to invest is that you're not incurring additional debt and monthly payments.

Turning an IRA into a self directed IRA is a difficult process and there are many websites that make this process much simpler. To find websites that can give you a simple approach to turning your IRA into a self directed IRA for investments I would recommend doing a keyword search for the following phrase "ira 123". You can use any search engine such as Google, Yahoo, or MSN.

Robert Hubbard is the President and CEO of

. The website provides a resource

for those interested in setting up a self directed IRA for investing. Hubbard is extremely knowledgeable on the subject and has held several conferences on the topic of investing with an IRA.



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