strategies are for you.

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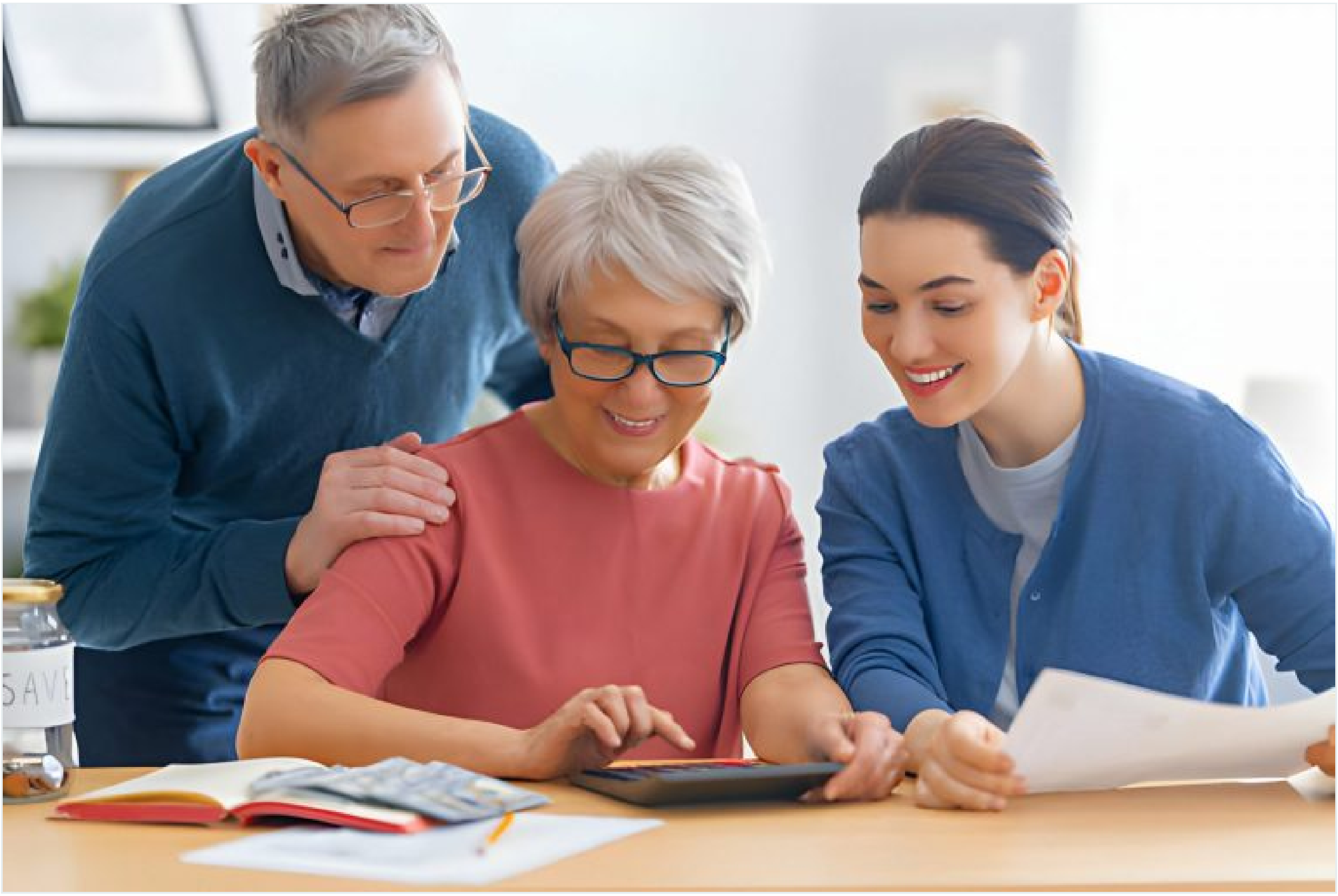

By Evan T. Beach, EA, CFP, AWMA, Kiplinger Consumer News Service (TNS)

"I just want to make sure I don't go broke and that I leave as much behind as I can." That's a line I have heard countless times from people all over the wealth spectrum. Most retirees focus on the number at the bottom of the balance sheet, not necessarily what that number will be after taxes. Some don't care. Who can blame them? Others would rather not have their kids or their estate pay more than necessary to Uncle

the property, there would have been a "step-up in basis," and there would have been no taxes on the gains they experienced during their lifetime.

While they would prefer to pay nothing in taxes, being landlords for the next 20 years would probably be more painful than writing the check to the United States Treasury. I bring this up only to say that I believe that life decisions should lead tax decisions, not the other way around. I have seen too many people move to too many places they don't actually like, just to save a few bucks in taxes. I'll get off my soapbox now. Real estate is a good thing to leave at death because of the step-up.

This applies not only to your primary residence but also to investment properties. If you've owned rental properties, you may be familiar with 1031 exchanges. The Internal Revenue Code allows you to defer gains on investment properties so long as you meet certain requirements.

What ends up happening is people buy a $100,000 rental and then exchange, exchange, exchange, until they end up with a few million bucks in rentals. If they sold during their life, they would owe the difference between their adjusted basis and value, as well as a recapture of depreciation on the sale.

Translation to English: They would owe a lot of taxes. However, the rules today give you a full step-up even on properties that have been exchanged. The strategy in summary: defer, defer, defer, die.

2. Leave behind a Roth IRA.

Inheriting a Roth for a millennial or Gen X kid is the modern-day equivalent of getting a Nintendo 64 for Christmas. Outside of your parents dying, you hit the jackpot! The Roth IRA has been around only since the 1990s, so it's rare that our clients have large Roth balances. If they do, it's because of the Roth conversions we helped them do between retirement and the start of their required minimum

- Your kid inherits that money and defers distributions for 10 years after your death, bringing the balance to $4 million, at which point they pull the money out tax-free.*

Boom!

(* Yes, there's an asterisk. These rules are quite complicated. The above applies to noneligible designated beneficiaries.)

3. Leave behind taxable investment accounts.

There are all sorts of names for these accounts: individual, joint, revocable trusts. They are all the same from a tax perspective. These are your liquid accounts that have been sending you a 1099 every year since they were opened. These accounts are treated much the same as the real estate in the first strategy, from a step-up perspective.

I met a woman several years back who had invested about $10,000 in Apple (AAPL) in the early 1990s. Her few million bucks in Apple stock now funds her retirement. (Fingers crossed they beat on iPhone sales!) She was living off of this money and paying significant gains because the default tax treatment is FIFO (first in, first out).

Essentially, the IRS is taxing the gain on the first shares bought. One thing we recommended was switching the tax treatment to LIFO (last in, first out). That reverses the tax treatment and allows her to sell the most recent shares bought first. Assuming she dies with Apple stock, those shares will pass tax-free to her kids, and she will minimize the taxes she pays during her life.

It doesn't matter if it's a stock, mutual fund or ETF. All of these assets will receive a step-up in basis, and your kids will avoid gains incurred during your life.

4. Buy life insurance.

tell me the day you're going to die, I'll tell you which strategy makes sense.

Unfortunately, a lot of "financial planning" still starts and ends with an asset allocation. Today's article goes beyond asset allocation to tax allocation. Your tax allocation will also look like a pie chart that shows you what percentage of your investments is tax-free, taxable and tax-deferred. You can see what yours looks like for free here. If leaving an inheritance is important to you, this is a good starting point.

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