Inheriting an IRA? Here's what you need to know

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Unlike a simple monetary inheritance, when someone dies and leaves an IRA (Individual Retirement Account) to a beneficiary, there are several distribution options and important deadlines that must be met to avoid problems with the distribution and to avoid potential tax penalties.

The **distribution options** available to the beneficiary depend upon:

1. The beneficiary's relationship to the IRA owner (*this is important because some options are only available to a spouse beneficiary*);
2. Whether or not the owner died before or after the RBD (Required Beginning Date), which is April 1 of the year following the year the IRA owner turns 70½;
3. The specific language within the IRA agreement.

There are multiple potential options available if you are the beneficiary of someone's IRA account. Those options may include (*Note: some of these options are only available to a spouse beneficiary, or have different rules for a non-spouse beneficiary*):

- rolling the account over into another account,
- treating the account as your own, or
- taking some form of life-expectancy based annual payout, or
- taking the money out as a lump sum and paying income taxes on the money.

A beneficiary spouse has the ability to roll the IRA account into an IRA account in their name or as a beneficiary IRA account. If the beneficiary spouse is younger than the deceased, there may be situations where a spouse would not want to have a beneficiary IRA account set up. One impact of setting up a beneficiary IRA in this situation would be on Required Minimum Distributions (RMDs), where the RMD you are required to take could be greater than it would be if you put the money into a regular IRA account in your name.

In addition to the options available for distribution, there are also many important deadlines that pertain to inheriting an IRA:

- **Nine months after the date of death** – This is the latest date any beneficiary may make a "qualified disclaimer," where the beneficiary essentially refuses some or all of the assets. These types of refusals can be used to avoid federal estate tax and gift tax, and to create legal inter-generational transfers which avoid taxation, provided they meet specific legal requirements.
- **December 31 of the year of death** – If the decedent was over 70½, make sure the RMD for the current year has been taken by year end to avoid tax penalties.
- **September 30 of the year after the year of death** – This date is important from a tax perspective because if any of the beneficiaries of the IRA were not individuals, all beneficiaries are forced to take full distributions within five years, rather than over their life expectancies. This can result in the loss of perhaps decades of tax deferral. *For example*, someone may list their children and a favorite charity as beneficiaries of their IRA. If the charity is not removed as a beneficiary the children lose the ability to take withdrawals over their life expectancy. The way to solve this potentially very costly problem is to redeem the interest that was specified for the charity. As long as this is done by September 30 of the year following the date of death, the individual beneficiaries can take distributions over their lifetimes.
- **October 31 of the year after the year of death** – If a trust was named as the beneficiary, trust documentation must be provided to the IRA custodian by this date.
- **December 31 of year after year of death** – The first beneficiary RMD must be taken. If there are multiple beneficiaries, this is also the deadline to
  1. set up separate accounts to utilize their own life expectancies to calculate the RMD; and
  2. to take the RMD. There is a spousal exception allowing a spouse with an inherited IRA to delay taking a beneficiary RMD until December 31 of the year the deceased spouse would have been 70½, *if the decedent died before age 70½*.

Because there are so many factors to consider, options to choose from, and dates to adhere to, I strongly encourage all to seek the assistance of both a qualified financial professional and a qualified tax professional in these situations. The Internal Revenue Service (IRS) website has many online resources available to further assist you as well; such as their 590B Publication found at www.IRS.gov/publications/p590b.

If you plan to leave an IRA to someone, you can help them tremendously by making sure they are aware of some important deadlines. Where possible, I recommend bringing your designated beneficiary in for a meeting with your financial advisor to help ensure the beneficiary is educated on some of the things they will need to do and decisions they will need to make upon inheriting your IRA. At the very least, perhaps share a copy of this article with them, or keep it with your will and other documents to ensure these things are brought to the attention of your beneficiaries when this time comes.

If you have an IRA you wish to leave to someone and want to better understand these requirements; or if you have recently inherited an IRA and need guidance on your options and your responsibilities, please contact our office at 770.931.1414 to schedule a free, no-obligation consultation. As always, we are here to help.

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