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IRA ACCOUNTS AND ESTATE PLANNING

HOW TO TREAT INHERITED INDIVIDUAL RETIREMENT ACCOUNTS

BY KIMBERLY HOANG, CPA

The SECURE Act, which became effective on January 1, 2021, changed the rules for inherited IRAs.

Prior to that, the rules were very beneficial to non-spousal beneficiaries. The act upended the “life expectancy” rule for distributions and, in its place, created the 10-year rule for non-spousal beneficiaries.

The act establishes a time period of 10 years for the **“full” distribution** of an inherited IRA, but ONLY for deaths occurring after 2019 and not for ALL beneficiaries. The rules regarding spousal beneficiaries remain the same.

Distributions depend on the age of the decedent, the age of the beneficiary, and the relationship of the beneficiary.

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The rules are different, depending on what type of beneficiary is receiving the IRA funds. The options to treat inherited IRA accounts differ depending on the type of beneficiary. These options relate, in great part, to the Required Minimum Distributions (RMD) of the decedent.

There are THREE types of beneficiaries:

1. **Eligible Designated Beneficiaries** – Listed as the named beneficiary of the account and are also one of the following:
    - Spouse
    - Minor child of the decedent
    - An individual less than 10 years younger than the decedent
    - An individual who is chronically ill or disabled
2. **Other Designated Beneficiaries** – Listed as the named beneficiary of the account, but none of the above descriptions – Basically an individual more than 10 years younger than the decedent
3. **Non-Designated Beneficiaries** – Estate, Trust, or Charity

The distribution rules may and do differ based on which category the beneficiary is included.

If you are the **surviving spouse**, you have four options:

1. Rollover the assets into your own IRA – This allows the spouse to take his or her RMDs based on his or her age
2. Open an inherited IRA and take distributions over time – This requires the RMDs to be based on the decedent's age
3. Take a lump-sum distribution
4. Disclaim the account – This means it would go to decedent's heirs as outlined in the will - usually exercised by the surviving spouse for the benefit of the children would go to decedent's heirs as outlined in the will, but not necessarily the heirs of the named beneficiary

If you are an **eligible designated beneficiary**, other than the surviving spouse, you have three options:

1. Open an inherited IRA and take distributions over time – normally a 10-year period
2. Take a lump-sum distribution
3. Disclaim the account – This means it would go to the decedent's heirs as outlined in the will, but not necessarily the heirs of the named beneficiary

If you are a **designated beneficiary**, you have three options:

1. Open an inherited IRA, transfer the assets into that inherited IRA account, and take distributions within ten years
2. Take a lump-sum distribution
3. Disclaim the account – This means it would go to the decedent's heirs as outlined in the will, but not necessarily the heirs of the named beneficiary

If you are a **non-designated beneficiary**, you have four options:

1. **ESTATE** – If the decedent were under the RMD age, the trust would open an inherited IRA, transfer the assets into that inherited IRA ccount, and distribute the assets within five years
2. If the decedent were of RMD age, open an inherited IRA and distribute the assets based on the decedent's life expectancy if they were RMD age – This requires the RMDs to be based on the decedent's age and not required to distribute within five years
3. Take a lump-sum distribution – If the beneficiary is a trust, the trust terms and type of trust will also govern the timing of this option – Please contact your KROST tax team for guidance
4. Disclaim the account

Required minimum distributions (RMD) depend on the type of beneficiary you are, the option you choose, and whether the decedent was of RMD age. If the beneficiary fails to withdraw the required amount, the penalty is 50%. This can be very complicated, so please reach out to your KROST tax team for guidance.

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Would you like assistance with your Estate Plan? Doug Venturelli and Richard Umanoff are available to review your current estate plan, provide recommendations, and consult with your estate attorney.

About the Author

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Kimberly is a Tax Manager in the tax department at KROST. She has been in the public accounting profession for over 4 years. Her areas of focus include tax planning and compliance for small to medium size businesses – sole proprietorship, partnerships, corporations as well as high net-worth individuals.

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