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# Inheriting an IRA?

## *Pay Attention to IRS Rules*

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If you inherit an IRA from a family member, be aware of the complex IRS rules that surround this account transfer. The requirements give your inherited IRA the potential to continue growing on a tax-deferred basis. But if you do not follow the rules to the letter, you could make costly mistakes.

### Inheriting from your spouse

IRS rules differ depending on who is inheriting the IRA and how old the IRA account owner is when he or she dies. The most straightforward IRA inheritance involves a surviving spouse, who has three options:

#### *1. Roll over the IRA.*

If you are the sole beneficiary of your spouse's IRA, you can roll over the assets into an existing or new IRA account under your name. You then can continue to contribute to the account, assuming you have earned income and are younger than age 72. You are required to take distributions beginning at age 72 as if the IRA had always been your own.

Even if your spouse was already taking required minimum distributions (RMDs) at the time of his or her death, you are not required to take distributions until you reach age 72. Therefore, a rollover may be particularly appropriate if you are significantly younger than your spouse. You may be subject to a 10% early withdrawal penalty on any withdrawals taken before you turn 59 ½.

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### *2. Remain a beneficiary.*

Another option is to have the IRA transferred into a beneficial IRA. In this case, both the original account owner's name and yours appear on the account. You then can begin taking RMDs in the year following your spouse's death, or, in some cases, postpone distributions until the year your spouse would have turned 72.

This alternative provides surviving spouses younger than age 59 ½ with a key advantage: Withdrawals are exempt from the normal 10% early withdrawal penalty.

### *3. Disclaim the IRA.*

If your financial situation allows, you can disclaim your interest to allow an inherited IRA to pass to your child or another younger beneficiary who has more time to take advantage of tax-deferred growth potential. He or she will have to take RMDs, but they can be spread over a longer period because of his or her longer life expectancy.

If you choose this option, you must disclaim the assets within nine months of your spouse's death. Also, know that this decision is irrevocable, so you should discuss the option with your tax and legal advisors.

In addition to the previous three options, you can also cash out the account, either immediately or a period not to exceed five years. Selecting this option, however, can result in expensive tax consequences.

## Inheriting from a non-spouse

Non-spouses can now roll over retirement plan accounts into an IRA in their own name. Non-spouses can also — like spouses — transfer IRA accounts into a beneficial IRA. One difference, however, is that you must begin taking RMDs by December 31st of the year following the account owner's death. Those distributions will be based on your life expectancy.

If you miss the December 31st deadline, you will generally be required to withdraw the entire account value by the end of the fifth year after the original account owner's death. You typically won't face a 10% early withdrawal penalty, though you will owe ordinary income taxes on any distributions.

Due to the SECURE Act, upon death of the retirement plan account holder, all distributions must be made within 10 years of death to an eligible beneficiary, providing the account holder dies after December 31, 2019. There are no required distributions during the 10 year period, as long as the entire IRA balance is withdrawn within 10 years of the date of death.

Eligible designated beneficiaries who are not subject to the 10 year distribution rule:

- Surviving spouses
- Individuals not more than 10 years younger than the account holder
- Chronically ill individuals
- Disabled individuals
- Minor children

Non-spouses can also choose to disclaim the IRA and allow it to pass to a younger beneficiary. The requirements are the same as for spouses — you must disclaim the assets within nine months of the account owner's death, and your decision, once made, is irrevocable.

***Seek advice:*** If you're likely to inherit an IRA, become familiar with these complicated IRA inheritance rules.


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**For specific questions on this article or about divorce financial planning, investment management, life and disability insurance, tax/estate planning, philanthropy, and/or other financial topics, contact Frank Fantozzi at 440.740.0130 x222. You may also email him at Frank@PlannedFinancial.com.**

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