

Inherited IRA Choices

Because of the tax benefits of investing in an IRA and the length of time they have been available, a significant amount of retirement money in the United States is contained in these types of accounts. Although inherited property is generally free of any taxation to the recipient, this is not true of IRAs. Because the money in an IRA, in most cases, has never been taxed, it will be taxed when it comes out of the IRA.



If you have been fortunate enough to inherit an IRA, you have choices to make regarding distributions that will affect your taxes:

Choices for IRAs with individual beneficiaries

There are 3 options, all of which are without penalty:

- You can cash the IRA in and pay the tax.
- You can elect to distribute the entire account by the end of the fifth year following the decedent's death. No distributions need to be made before this date, however. This option only applies if the decedent died before the date Required Minimum Distribution (RMD) begins.
- You can leave the IRA in the name of the deceased.

If the decedent was already receiving a RMD, you can distribute the account over the longer of the beneficiary's life (based on the *single lifetime table*) or the decedent's life (based on the *single lifetime table*).

If the decedent was not yet receiving a RMD, distributions can be made over the beneficiary's life.

Choices for surviving spouses

In addition to the above three options, a surviving spouse can treat the IRA as his/her own. It can be rolled into an existing IRA or retirement plan and can be added to. If distributions from this treatment occur before age 59½, a premature distribution penalty will apply.

Non individual beneficiaries (estates)

If the decedent was already receiving a RMD, non individuals must distribute the IRA over the decedent's remaining life on the *single lifetime tables*.

If the decedent was not yet receiving a RMD, the account needs to be distributed before the end of the fifth year.

No beneficiary (or the beneficiary disclaims his/her interest)

The estate can designate one of its individual beneficiaries to be the designated beneficiary of the IRA. This must be done by September 30 in the year following the date of death. In this case, the above rules for individuals apply.

More than one individual beneficiary

The beneficiary with the shortest life expectancy is treated as the designated beneficiary if the account has not been divided into separate accounts for each individual by September 30 in the year following the decedent's death.