



Individual Retirement Accounts Beneficiaries of IRAs and Qualified Plans



LET'S START A CONVERSATION

We'd love to meet you, talk about your financial goals, and see if we're the right fit to help you get there.

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Inherited Traditional IRAs

Inherited IRA choices. As a designated beneficiary, you have choices when inheriting a traditional IRA.

Surviving spouse.

- You can treat the IRA as your own IRA by designating yourself as the account owner.
 - To be treated as your own IRA you must be the sole beneficiary of the IRA and have unlimited right to withdraw amounts from it.
- You can treat the IRA as your own by rolling it over into your IRA, or to the extent that it is taxable, into a:
 - Qualified employer plan,
 - Qualified annuity plan (section 403(a) plan),
 - Tax-sheltered annuity plan (section 403(b) plan), or
 - Deferred compensation plan of a state or local government (section 457 plan).
- You can treat yourself as the beneficiary rather than treating the IRA as your own.

RMDs. If you are the owner of the inherited IRA and not the beneficiary, you will determine the RMD (if any) as if you were the owner beginning with the year you elect or are deemed to be the owner. **Note:** If you become the owner in the year your deceased spouse died, don't determine the RMD for that year using your life, rather, you must take the deceased spouse's RMD for that year (to the extent it wasn't already distributed to your spouse before his or her death).

Inherited from someone other than a spouse. If you inherit a traditional IRA from anyone other than your deceased spouse, you can't treat the inherited IRA as your own. This means you can't make any contributions to the IRA. It also means you can't roll over any amounts into or out of the inherited IRA. You can make a trustee-to-trustee transfer as long as the IRA into which the

amounts are being moved is set up and maintained in the name of the deceased IRA owner for the benefit of you as beneficiary.

RMDs. With respect to IRA owners who die after December 31, 2019, the inherited IRA must generally be fully distributed by the end of the 10th calendar year following the year of the IRA owner's death, except for the following individuals.

- Surviving spouse,
- Disabled or chronically ill individual,
- Individual who is not more than 10 years younger than the IRA owner, or
- Child of the IRA owner who has not reached the age of majority.

10% early withdrawal penalty. The 10% penalty for withdrawal before age 59½ does not apply to a distribution to you on or after the death of the participant. However, if a spouse chooses to roll the decedent's IRA into his or her own separate IRA, any subsequent distribution will be subject to the 10% early withdrawal penalty assuming no other exception to the penalty applies.

IRA with basis. Any nondeductible contributions that gave the IRA a basis stay with the IRA after it is inherited by you. The basis cannot be combined with your basis in your own IRAs unless you are the decedent's spouse and choose to treat the IRA as your own.

Inherited Roth IRA

When a Roth IRA owner dies, the minimum distribution rules that apply to traditional IRAs apply to Roth IRAs as though the Roth IRA owner died before his or her required beginning date.



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Distributions to beneficiaries. Generally, the entire interest in the Roth IRA must be distributed by the end of the 10th calendar year after the owner's death for owners who die after December 31, 2019. Exceptions apply to:

- A surviving spouse,
- Disabled or chronically ill individuals,
- Individuals who are not more than 10 years younger than the IRA owner, or
- Children of the IRA owner who have not reached the age of majority.

Spouse. If you are the sole beneficiary and the decedent's spouse, you can either delay distributions until the year your spouse would have reached age 72 or treat the Roth IRA as your own.

Combining with other Roth IRAs. You can combine an inherited Roth IRA with another Roth IRA you maintain only if you either:

- Inherited the other Roth IRA from the same decedent, or
- Were the spouse of the decedent and the sole beneficiary of the Roth IRA and elect to treat it as your own IRA.

Distributions that are not qualified distributions. Distributions from inherited Roth IRAs are not usually taxed. However, if a distribution to you is not a qualified distribution, it is generally includible in your gross income in the same manner as it would have been included in the owner's income had it been distributed to the IRA owner when he or she was alive. If the owner of a Roth IRA dies before the end of one of the following, the ordering rules for Roth IRA distributions determines which part may be taxable.

- The 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for the owner's benefit, or
- The 5-year period starting with the year of a conversion contribution from a traditional IRA or a rollover from a qualified retirement plan to a Roth IRA,

Designated Beneficiary Not Determined

If the IRA does not have a designated beneficiary as of the date of death, or the designated beneficiary disclaims his or her interest in the IRA, then the estate can designate one of the estate beneficiaries as the IRA designated beneficiary. The time limit for making this designation is September 30 of the year following the year of the IRA participant's death. By making this designation, the estate can avoid having the IRA distributed under the 5-year rule.

Beneficiaries of Qualified Plans

Generally, you report pension or annuity income in the same way the plan participant would have reported it. However, some special rules apply.

Employee's investment in contract. You as a beneficiary of an employee who was covered by a retirement plan can exclude from income a portion of nonperiodic distributions received that totally relieve the payer from the obligation to pay an annuity. The amount that you can exclude is equal to the deceased employee's investment in the contract (cost).

Survivor annuity. If you are entitled to receive a survivor annuity on the death of an employee, you can exclude part of each annuity payment as a tax-free recovery of the employee's investment in the contract. You must figure the tax-free part of each payment using the method that applies as if you were the employee.

Joint and survivor annuity. Benefits paid to a survivor under a joint and survivor annuity must be included in the surviving spouse's gross income in the same way the retiree would have included them in gross income.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 72.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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