

Will I owe taxes on my IRA inheritance?

The IRS and recent legislation such as the SECURE Act have outlined important rules regarding an inherited IRA, such as how much you may owe in taxes as well as whether you will need to begin taking required minimum distributions.

Generally, you must pay tax on inherited IRA assets. This can depend on several factors, such as your relationship to the deceased, whether the IRA inherited is a Roth IRA or traditional IRA, the type of assets within the IRA and more. If you have an inherited IRA, it's important to understand the implications—including when it might be time to bring in a financial advisor or tax professional to help you navigate these complex rules.

Additionally, it is important to note that the IRS may provide more guidance with respect to the new rules and therefore the information provided is subject to some modification.

Inheriting a Traditional or Roth IRA

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This brochure is for general information only and is not intended to provide specific advice or recommendations for any individual. It is important to note that the IRS may provide more guidance with respect to new rules and therefore the information provided is subject to some modification. We suggest that you consult your attorney, accountant, financial or tax advisor with regard to your personal situation.

Distribution options
for beneficiaries.

Inherit an IRA?

Have you inherited a traditional IRA or a Roth IRA? The beneficiary options available to you are important and complex, and it is often necessary to consult a competent advisor before making your election. The IRA plan agreement generally outlines the distribution options available to you.

On Dec. 20, 2019, the President signed into law the Setting Every Community Up for Retirement Enhancement Act, commonly referred to as the SECURE Act. Beginning January 1, 2020, the SECURE Act makes significant changes to Individual Retirement Accounts (IRAs)—perhaps the most significant of which involve the treatment of plan balances payable to beneficiaries after the owner’s death.

Prior to the act, if you inherited an IRA, you could generally “stretch” your taxable distributions and tax payments out over your own life expectancy. Many people have used “stretch” IRAs as a reliable lifetime income source. The beneficiary distribution options in effect before the SECURE Act continue to apply for IRA owners who died before January 1, 2020.

For IRAs (Traditional, Roth & SIMPLE) inherited from original owners that passed away on or after January 1, 2020, the new law requires most nonspouse beneficiaries (more than 10 years younger than the original IRA owner) to withdraw assets from an inherited IRA within 10 years following the death of the account holder—no longer having the option to take payments over their own life expectancy.

The recipients may spend these funds however they choose, but the government decides how long the money may remain in the inherited IRA.

The rules are different for spouses and non-spouses. In either case, understanding all your options is crucial to avoiding penalties and paying the least in taxes overall.

Inheriting an IRA After 12/31/19

For many beneficiaries, the SECURE Act eliminated the life expectancy payment option, replacing it with a simple 10-year rule. Although spouses and a few other beneficiaries, referred to as “eligible designated beneficiaries”, still qualify for distributions over their remaining life expectancy. The following summary reviews new rules for the various types of beneficiary.



Traditional, Roth, and SIMPLE IRA Beneficiary Options When IRA Owner Dies on or after January 1, 2020

Spouse	Nonspouse	Nonspouse
<ul style="list-style-type: none"> • Treat IRA as own • Lump sum • 10-year rule • Life expectancy payments 	<p>Not more than 10 years younger than the IRA owner— account owner’s minor child, disabled, or chronically ill person</p> <ul style="list-style-type: none"> • Lump sum • 10-year rule • Life expectancy payments 	<p>More than 10 years younger than the IRA owner</p> <ul style="list-style-type: none"> • Lump sum • 10-year rule <p>Minor child of the account owner must distribute the entire amount within 10 years of turning the age of majority.</p>

Beneficiary Options for Nonpersons

Applies to deaths occurring on or after January 1, 2020
Generally must follow the distribution rules in effect before 2020

Nonperson Roth IRAs	Nonperson Traditional & SIMPLE IRAs
5-year rule	<p>If the IRA owner died before his/her RBD for RMD</p> <ul style="list-style-type: none"> • 5-year rule <p>If the IRA owner died on or after his/her RBD for RMD</p> <ul style="list-style-type: none"> • Single life expectancy payments

How much time do I have to make a decision?

You generally must make your election by December 31 of the year following the year of the IRA holder’s death. The IRA holder’s original plan agreement generally outlines which distribution option you must follow if a timely election is not made.

A spouse beneficiary’s option to treat an IRA as his or her own is available at any time after the death of the IRA holder, even if another payout method was selected upon the death of the IRA holder.

Beneficiary Option Definitions

- **Lump Sum Distribution** – You may withdraw the total amount of your inherited IRA assets from the IRA. Lump sum payments may be taken at any time.
- **Life Expectancy Payments** – This beneficiary option requires you to take payments at least annually, based on a life expectancy, beginning December 31 of the year following the year of the IRA owner’s death. Spouse beneficiaries may delay payments until the IRA owner would have turned age 72.
- **Treat The IRA As Your Own** – If you are a spouse beneficiary, you may generally roll over or transfer the inherited IRA assets to your own IRA.
- **10-Year Rule** – All amounts to be distributed under the 10-year payout rule must be distributed in full by December 31 of the year that contains the tenth anniversary of the date of death of the IRA holder. No distributions are required to be made until the end of the 10-year period, although distributions may be made before then.
- **5-Year Rule** – You may withdraw any amount at any time as long as the entire IRA balance is withdrawn by December 31 of the year containing the fifth anniversary of the IRA holder’s death.
- **RBD** – (Required Beginning Date) The day when the owner of an IRA must begin taking a Required Minimum Distribution from the account.
- **RMD** – (Required Minimum Distribution) The sum of money that an IRA account holder must begin withdrawing from his or her retirement account.