THE NEW INHERITED IRA RULES

Do you know what has changed for IRA beneficiaries?

financial fitness

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New inherited IRA rules took effect on January 1, 2020. The Setting Every Community Up for Retirement Enhancement (SECURE) Act became law on that day, altering the regulations on inherited Individual Retirement Account (IRA) distributions.

The big change: the introduction of the 10-year rule for beneficiaries. Most people who inherit an IRA now have to empty that IRA of assets within 10 years of the original owner's death. You can do this as you wish; you can withdraw the whole IRA balance at once, or take incremental distributions on the way to meeting the 10-year deadline.

Remember that tax rules constantly change. There is no guarantee that the tax treatment of Roth and Traditional IRAs will remain what it is now. This article is for informational purposes only. If you have inherited or expect to inherit a traditional or Roth IRA, be sure to consult a financial professional for real-world advice.

Are there exceptions to this rule? Yes. If the deceased IRA owner was your spouse, you can treat the inherited IRA like an IRA of your own. If it is a traditional IRA, you generally must take required minimum distributions (RMDs) from it once you reach age 72. The IRS taxes those distributions as regular income, and if you take any distributions before age 59½, they may be subject to a 10% federal income tax penalty. If it is a Roth IRA, you aren't required to take RMDs. (You may continue to contribute to a Traditional IRA past age 72 as long as you meet the earned-income requirement.)

Certain non-spousal IRA beneficiaries still have the chance to "stretch" inherited IRA distributions over their remaining lifetimes, using Internal Revenue Service formulas (a choice available to most I.R.A. beneficiaries before 2020). You may choose this option if you are less than 10 years younger than the original IRA owner. You can also elect to do this if you meet the SECURE Act's definition of a "disabled" or "chronically ill" individual (you have a life-altering physical or mental impairment or require extended care).

Lastly, if a child inherits an IRA, they can take distributions based on the child's life expectancy until the age of 18, at which point the aforementioned 10-year rule applies.

If you are a Roth IRA beneficiary, be aware of the five-year rule pertaining to Roth IRAs. If you inherit a Roth IRA that is less than five years old at the time of the original owner's death, any earnings taken from it will count as taxable income. If the Roth IRA is more than five years old, you can take tax-free distributions from the earnings. Assets representing the original owner's Roth IRA contributions can become tax-free distributions regardless of when the original owner opened the Roth IRA.

What's the big takeaway from all this? Suppose you are relatively young and anticipate a large IRA inheritance, and that big IRA is a traditional IRA. In that case, you can anticipate greater income taxes during the 10-year window when you take those inherited IRA distributions.

By the way, the new rules do not apply to inherited IRAs whose initial owners died prior to 2020. If you are a beneficiary of such an IRA, then you may still attempt to "stretch" the inherited IRA assets according to IRS life expectancy formulas and take RMDs as required by the old rules.

Wagner Wealth Management has offices in Greenville, Anderson and Oconee counties. Call us at **864-236-4706**, or visit **www.wagnerwealthmanagement.com** to learn more about our firm.

Source: Marketing Pro, Inc., March 2021
NerdWallet, November 25, 2020
FedWeek, March 3, 2020
Forbes, October 28, 2020