

**From the desk of  
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## **Inherited IRA's**

When inheriting an IRA there are some special rules that you need to be aware of, not the least of which is that you will be taxed on the distributions.

Should you inherit an IRA jointly with someone else you should consider splitting up the account so that you are not bound by the rules that apply to the oldest recipient.

If you are named as one of two or more heirs, you may divide an inherited IRA into separate accounts allowing each heir to spread withdrawals across his or her own life expectancy.

The date for such an election to be effective is September 30 of the year following the death of the individual leaving the IRA.

If you do not follow this procedure you will be required to use the life expectancy of the oldest heir.

### **Sharing With a Charity**

The September 30 deadline is even more important if you inherit an IRA jointly with a charity since a charity has a zero life expectancy.

If the charity does not take its share of the account by that date and if the original owner died before starting required distributions (at age 70½), the default requirement is that you would be required to cash out the entire account within five years and the clock starts the year after the IRA owner's death.

If the original owner was making required withdrawals having reached the mandatory distribution age when he or she died, you will be required to spread your withdrawals across your benefactor's life expectancy.

You can use your own life expectancy if the charity had been cashed out.

To avoid this potential pitfall clients planning to give part of their IRA assets to a charity should set up a separate IRA in the organization's name and separately bequeath the balance of the IRA's to their heirs.

It is best never to roll the funds any inherited IRA or deferred compensation into your own IRA.

Spouses by contrast are allowed to roll over inherited accounts into their own IRA account.

A spouse should take some time to think through the best strategy for making such a move.

Many times spouses inadvertently roll IRA or deferred income directly into their non IRA accounts making the distribution immediately subject to tax.

One should always consult us before taking any kind of deferred income or IRA account distribution to determine the tax effect of the distribution.

### **For the Inheriting Spouse**

If you are the inheriting spouse you will have the same requirements as did your spouse and do not have to do anything with the account until your spouse would have turned 70½ years of age.

If you are older than that age you would have to start taking withdrawals.

Should you be younger you can roll the assets into your own IRA and wait until you reach the age 70½ before having the requirement of taking distributions.

Either way when you roll the funds into your own account you get to stretch those payments across your life expectancy.

Finally make sure you do not miss the following tax break: You can deduct estate tax already paid on an IRA you inherit as an itemized deduction in the year the inheritance taxes are paid. To do so you will need to contact the CPA or attorney who prepared the Estate Tax Return and inquire as to what amount of estate tax was paid in relationship to the inherited IRA.