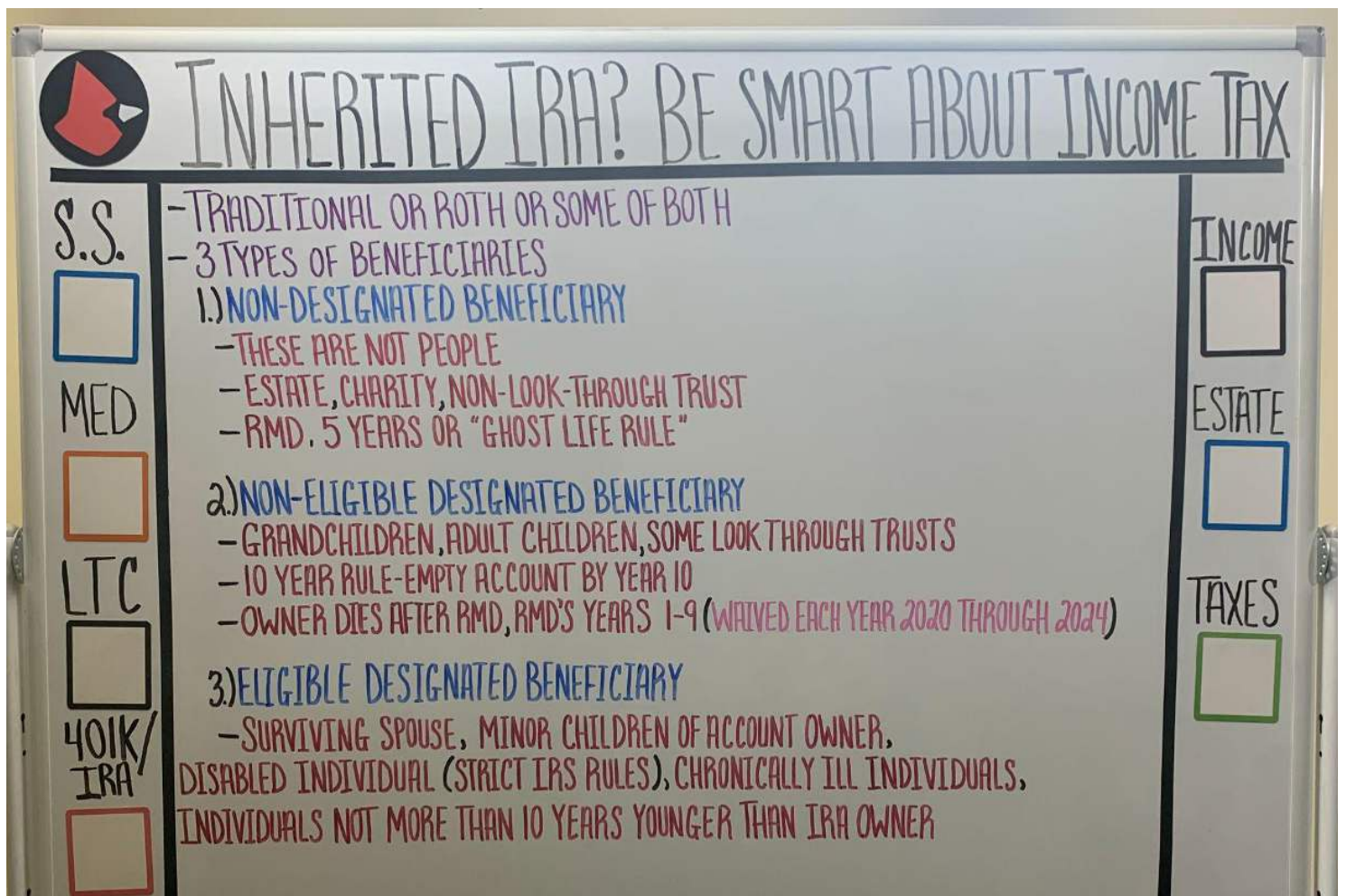


## Inherited IRA? Be Smart About Income Tax

Hans and Tom use the following Ed Slott documents to discuss the video entitled “Inherited IRA? Be Smart About Income Tax.



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# Single Life Expectancy Table (for Inherited IRAs)

(To be used for calculating post-death required distributions to beneficiaries)

Age of IRA or Plan Beneficiary	Life Expectancy (in years)	Age of IRA or Plan Beneficiary	Life Expectancy (in years)	Age of IRA or Plan Beneficiary	Life Expectancy (in years)	Age of IRA or Plan Beneficiary	Life Expectancy (in years)
0	84.6	31	54.4	61	26.2	91	5.3
1	83.7	32	53.4	62	25.4	92	4.9
2	82.8	33	52.5	63	24.5	93	4.6
3	81.8	34	51.5	64	23.7	94	4.3
4	80.8	35	50.5	65	22.9	95	4.0
5	79.8	36	49.6	66	22.0	96	3.7
6	78.8	37	48.6	67	21.2	97	3.4
7	77.9	38	47.7	68	20.4	98	3.2
8	76.9	39	46.7	69	19.6	99	3.0
9	75.9	40	45.7	70	18.8	100	2.8
10	74.9	41	44.8	71	18.0	101	2.6
11	73.9	42	43.8	72	17.2	102	2.5
12	72.9	43	42.9	73	16.4	103	2.3
13	71.9	44	41.9	74	15.6	104	2.2
14	70.9	45	41.0	75	14.8	105	2.1
15	69.9	46	40.0	76	14.1	106	2.1
16	69.0	47	39.0	77	13.3	107	2.1
17	68.0	48	38.1	78	12.6	108	2.0
18	67.0	49	37.1	79	11.9	109	2.0
19	66.0	50	36.2	80	11.2	110	2.0
20	65.0	51	35.3	81	10.5	111	2.0
21	64.1	52	34.3	82	9.9	112	2.0
22	63.1	53	33.4	83	9.3	113	1.9
23	62.1	54	32.5	84	8.7	114	1.9
24	61.1	55	31.6	85	8.1	115	1.8
25	60.2	56	30.6	86	7.6	116	1.8
26	59.2	57	29.8	87	7.1	117	1.6
27	58.2	58	28.9	88	6.6	118	1.4
28	57.3	59	28.0	89	6.1	119	1.1
29	56.3	60	27.1	90	5.7	120+	1.0
30	55.3						

This table is used to calculate RMDs for:

- Designated Beneficiaries (DBs) who inherited before 2020.
- DBs who inherit in 2020 or later when the account owner dies ON OR AFTER his RBD - for years 1-9 of the 10-year period.
- Eligible Designated Beneficiaries (EDBs).
- Non-Designated Beneficiaries when the account owner dies ON OR AFTER his RBD for “ghost rule” RMDs.

This table is NOT used by:

- DBs who inherit in 2020 or later when the account owner dies BEFORE the RBD.
- IRA owners to calculate lifetime RMDs.
- Roth IRA beneficiaries, who are not EDBs.



# SPOUSE BENEFICIARY OPTIONS

Use this chart to determine the best course of action when a spouse beneficiary inherits an IRA in 2020 or later. The options will depend on when the IRA owner dies and the age of the spouse beneficiary. If the death is before the **required beginning date (RBD)**, the options are spousal rollover, keeping an inherited IRA, or electing the 10-year rule. If the IRA owner dies after the RBD, the options are spousal rollover and keeping the inherited IRA. A spousal rollover can be done at any time but once done cannot be reversed.

Date of Death	IRA Owner Dies <u>BEFORE</u> RBD (or has a Roth IRA): 3 Options			IRA Owner Dies <u>ON or AFTER</u> RBD: 2 Options	
	Options	<i>Spousal Rollover</i>	<i>Inherited IRA</i>	<i>10-Year Rule</i>	<i>Spousal Rollover</i>
Spouse beneficiary is under age 59½	No RMDs (ULT)* until age 73  If Roth, no lifetime RMDs  10% penalty applies	No RMDs (SLT)** until 12-31 of the year the IRA owner would have been 73  No 10% penalty	Distribute funds by 12-31 of the 10th year after the year of death  No annual RMDs or 10% penalty	No RMDs (ULT)* until age 73  10% penalty applies	RMDs (SLT)** each year  No 10% penalty
Spouse beneficiary is older than age 59½ but younger than age 73	No RMDs (ULT)* until Age 73  If Roth, no lifetime RMDs  No 10% penalty	No RMDs (SLT)** until 12-31 of the year the IRA owner would have been 73  No 10% penalty	Distribute funds by 12-31 of the 10th year after the year of death  No annual RMDs or 10% penalty	No RMDs (ULT)* until age 73  No 10% penalty	RMDs (SLT)** each year  No 10% penalty
Spouse beneficiary is age 73 or older	RMDs (ULT)* each year  If Roth, no lifetime RMDs  No 10% penalty	No RMDs (SLT)** until 12-31 of the year the IRA owner would have been 73  No 10% penalty	Distribute funds by 12-31 of the 10th year after the year of death  No annual RMDs or 10% penalty	RMDs (ULT)* each year  No 10% penalty	RMDs (SLT)** each year  No 10% penalty

\* Use the Uniform Lifetime Table (ULT) and the recalculated age of the spouse beneficiary to calculate the required minimum distribution (RMD).

\*\* Use the Single Life Expectancy Table (SLT) and the recalculated age of the spouse beneficiary to calculate the RMD. If the death is on or after the RBD, you may use the nonrecalculated life expectancy of the deceased IRA owner if it is longer.

# SECURE Act

## Retirement Plan Payouts to Beneficiaries Under the SECURE Act

(for deaths *after* 2019\*)

### \*Extended Effective Dates

The effective date for the elimination of the stretch and application of the 10-year rule is generally for deaths after December 31, 2019. But that effective date was extended for two years (for deaths after December 31, 2021) for governmental plans, including certain 403(b) and 457(b) plans, and the Thrift Savings Plan. It was also extended for as long as two years for collectively bargained plans, depending on the expiration date of the union contract.

### Retirement Accounts Affected

The elimination of the stretch IRA and inclusion of the 10-year rule provisions apply to defined contributions plans, including 401(k), 403(b) and 457(b) plans, and traditional and Roth IRAs. They do not apply to defined benefit plans.

**Under the SECURE Act, there are 3 kinds of retirement plan beneficiaries for determining post-death payouts after 2019:**

1. Non-Designated Beneficiary (NDB)
2. Non-Eligible Designated Beneficiary (NEDB)
3. Eligible Designated Beneficiary (EDB)

## 1. Non-Designated Beneficiary (NDB)

These are not people. Examples: Estate, charity or non-qualifying trust (non-look-through trust)

### Post-death Payout Rules for NDBs

Based on whether the IRA owner or plan participant dies before or after the owner's required beginning date (RBD). The RBD is generally April 1 after the year of the 73rd birthday.

If owner dies before the RBD, the account must be withdrawn by the end of the 5th year after the year of death – the 5-year rule. There are no annual RMDs during the 5-year window.

If owner dies on or after the RBD, RMDs must be taken over the deceased's remaining single life expectancy – "*ghost life rule*." (Note: This can produce a post-death payout exceeding 10 years.)

## 2. Non-Eligible Designated Beneficiary (NEDB)

### 10-year rule

All designated beneficiaries who do not qualify as EDBs (see #3 below).

Examples: grandchildren, older children, some look-through trusts

**Post-death Payout Rules for NEDBs - Depends on whether death occurs before or after the required beginning date (RBD)**

- If owner dies **before** the RBD, there are no annual RMDs during the 10-year window.
- If owner dies **on or after** the RBD, annual (stretch IRA) RMDs must be taken for years 1-9.

Entire account must be emptied by the end of the 10th year after the year of death – the 10-year rule.

## 3. Eligible Designated Beneficiary (EDB)

### Stretch applies

The SECURE Act exempts these beneficiaries from the 10-year rule. However, if the account owner dies before the RBD, an EDB can elect the 10-year rule.

EDBs must be designated beneficiaries.

### 5 Classes of Eligible Designated Beneficiaries

1. Surviving spouses
2. Minor children of the account owner, until age 21 - but *not* grandchildren
3. Disabled individuals – under the strict IRS rules
4. Chronically ill individuals
5. Individuals not more than 10 years younger than the IRA owner. (Those older than the IRA owner also qualify.)

**Plus** - Any designated beneficiary (including qualifying trusts) who inherited **before** 2020. These beneficiaries are grandfathered under the pre-2020 stretch IRA rules. In addition, trusts for the sole benefit of these EDBs should qualify as an EDB.

**EDB status is determined at date of owner's (or plan participant's) death and cannot be changed.**

### Post-death Payout Rules for EDBs

Once an EDB no longer qualifies as an EDB, or dies, the 10-year rule is applied for them, or for their beneficiaries (i.e., successor beneficiaries.)