

Clarification Arrives for Distribution Requirements of Inherited IRAs

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The Internal Revenue Service (IRS) has issued final rulings regarding the 2019 SECURE Act (the Act) to clear up ambiguities surrounding the controversial 10-year rule for inherited individual retirement accounts (IRAs). Prior to the Act, heirs of an inherited IRA could stretch out withdrawals over their lifetimes. After the Act, the IRS mandated that most beneficiaries withdraw the entire amount within 10 years of inheriting the asset. However, there was no clarity as to whether the amount had to be withdrawn annually, or if heirs could withdraw the entire amount at the conclusion of the 10-year period. To align with Congress' intent to prevent tax avoidance and ensure that distributions occur over a reasonable period, the IRS recently released final rules indicating that those who inherited IRAs since 2020 must begin taking required minimum distributions (RMD) starting in 2025 based on the beneficiary's life expectancy. If the minimum is withdrawn each year for the first

nine years, on the tenth and final distribution, the entire account must be fully depleted.

There are some exceptions to the guidance, as spouses of account owners, minor children under age 21, disabled or chronically ill beneficiaries, and beneficiaries that are not more than 10 years younger than the deceased, are exempt from this rule change. Furthermore, if the account owner passed away before he or she was required to take distributions, typically before age 73, the beneficiaries can withdraw funds at their discretion within the 10-year period. Additionally, some vehicles, such as the commonly used Roth IRA, are not subject to this new ruling. Beneficiaries who inherit a Roth IRA can defer withdrawals until the end of the 10-year period, with withdrawals being tax free.

With the SECURE Act came confusion from taxpayers on how account distributions should be managed from the year of death. As clarification did not arrive until July 2024, the IRS is waiving penalties for failing to take any required withdrawals for the years 2021 through 2024. However, starting in 2025, beneficiaries must adhere to annual withdrawal requirements. Beneficiaries who will inherit multiple IRAs should keep in mind that each account may have different requirements for payouts.

Overall, these rule clarifications reflect the IRS's efforts to reform retirement account laws. These changes can vastly impact how individuals plan for tax liabilities, as well as inheritances. For example, if a beneficiary stands to inherit a significant amount through an IRA, they may want to time their distributions so that they take only the required minimum amounts during their peak earning years and withdraw the larger remaining balance when they have entered a lower tax bracket. Beneficiaries and their advisors can design an optimal plan using the IRS life expectancy table, which is updated annually. It is crucial for beneficiaries of retirement accounts to understand the recent clarifications of the tax law in order to optimize financial planning and avoid potential penalties.

For more information or to discuss a particular matter in detail, contact your Anchin Relationship Partner, or [Abu Quayyum](#), a tax senior manager in Anchin Private Client.