# Beware IRD
# If Anticipating an Inheritance

Most people are genuinely appreciative of inheritances, yet sometimes a well-intentioned gift can have steep tax consequences. While inherited property is typically tax-free to the recipient, this is not the case with an asset that is considered income in respect of a decedent (IRD). If someone inherits previously untaxed property, such as an IRA or other retirement account, the resulting IRD can produce significant income tax liability.

**IRD explained**

IRD is income that the deceased was entitled to, but had not yet received, at the time of his or her death. It is included in the deceased's estate for estate tax purposes, but not reported on his or her final income tax return, which includes only income received before death.

To ensure that this income doesn't escape taxation, the tax code provides for it to be taxed when it is distributed to the deceased's beneficiaries. Also, IRD retains the character it would have had in the deceased's hands. For example, if the income would have been long-term capital gain to the deceased, it is taxed as such to the beneficiary.

IRD can come from various sources, such as unpaid salary and distributions from traditional IRAs. In addition, IRD results from deferred compensation benefits and accrued but unpaid interest, dividends and rent.

**What recipients can do**

If a person inherits IRD property, he or she may be able to minimize the tax impact by taking advantage of the IRD income tax deduction. This frequently overlooked write-off allows beneficiaries to offset a portion of his or her IRD with any estate taxes paid by the deceased's estate that was attributable to IRD assets.

This amount can be deducted on Schedule A of his or her federal income tax return as a miscellaneous itemized deduction. Yet unlike many other deductions in that category, the IRD deduction is not subject to the 2%-of-adjusted-gross-income floor. Therefore, it has not been suspended by the Tax Cuts and Jobs Act.

It is important to remember that the IRD deduction reduces, but does not eliminate, IRD. If the value of the deceased's estate is not subject to estate tax — because it falls within the estate tax exemption amount ($11.18 million for 2018), for example — there is no deduction at all.

Calculating the deduction can be complex, especially when there are multiple IRD assets and beneficiaries. Basically, the estate tax attributable to a particular asset is determined by calculating the difference between the tax actually paid by the deceased's estate and the tax it would have paid had that asset's net value been excluded.

**Be prepared**

IRD property can result in an unpleasant tax surprise. To identify any IRD assets and determine their tax implications, contact your Anchin Relationship Partner or Tamir Dardashtian, a principal in Anchin Private Client, at info@anchin.com or 212.840.3456.

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