

## Clarification for Inherited IRA Distributions

The IRS recently clarified some of the language addressing how/when distributions should be taken from an inherited IRA. For a little perspective, Congress created IRAs in 1974 as a way for citizens to save funds to supplement their retirement income. The appealing feature allowed contributions to be made pre-tax and growth would be tax-deferred. Taxes would eventually be due on any funds withdrawn during retirement. Over the last 48 years IRA account balances have grown substantially as our life expectancies have lengthened, retirement ages raised, and the age at which required distributions began was adjusted upward.

Every IRA must have at least one beneficiary (most often a spouse or other family member). When the original owner would pass away, the named beneficiary would inherit the account and would have to take annual required minimum distributions (RMDs) over a timeframe that often reflected a calculation based on their own life expectancy.

Congress became concerned that too much money was not being taxed quickly enough. When they passed the SECURE Act in 2019, one of the provisions called for Inherited IRAs to be fully distributed within 10 years after the original owner's death if the original owner passed away in 2019 or later. However, the language addressing RMDs during those 10 years was nebulous. The general interpretation was the RMDs would not be required and that beneficiaries could forego RMDs as long as they withdrew the entire balance before the end of 10 years.

The IRS clarification for RMDs from an Inherited IRA was issued in the latter part of 2022 and will vary slightly depending on the beneficiary. In general, a spouse may inherit and continue the IRA as their own, taking distributions based on their life expectancy.



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Non-spouses must still exhaust the funds within the 10 years; however, if the original owner was already receiving required distributions, the non-spouse beneficiary must take distributions based on the original owner's life expectancy calculation. If the original owner had not reached the age for RMDs, the non-spouse beneficiary may use a calculation based upon their own life expectancy table. Of course, there are several nuances involved if the inheriting beneficiary is younger than 21, disabled, a charitable organization, or part of an Estate.

Because the IRS clarification was issued later in 2022, they stipulated beneficiaries would not be penalized for any distributions that should have occurred in the years prior. They will be looking for RMDs from inherited IRAs to resume in 2023.

**If you are the beneficiary of an IRA for someone who passed away in 2019 or later, it is always good to consult with your tax professional and us as you consider how to approach distributions.**

# CLARIFICATION FOR INHERITED IRA DISTRIBUTIONS

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