



## OLD NORTH STATE TRUST, LLC

### Inherited IRA's

Don't touch them!

Don't touch an Inherited IRA until you have consulted a knowledgeable advisor about the taxability of any distribution, transfer or name change on the IRA.

Upon the death of an IRA owner, there are several rules that affect the distributions from the IRA.

The required minimum distribution (RMD) rules change upon the owner's death. Rules for beneficiaries take effect in the year following the year in which the owner dies, so you have to be very careful!

#### A. There are three RMD rules that may apply:

1. The Five Year Rule- This rule states the IRA must be fully distributed by December 31st of the year containing the fifth anniversary of the owners date of death. There are no required distributions in the four years following the owner's death. The beneficiary can take 100% in the fifth year or take one or more distributions in the first four years.
2. Beneficiary's Life Expectancy Rule- Only a "designated beneficiary" can use this rule. The designated beneficiary uses the single life table (provided by Reg 1.401 (a) (9)-9, A-1) using the designated beneficiary's age in the year following the year of the owner's death. The applicable divisor is reduced by one each subsequent year. The RMD must be taken no later than December 31st of the year following the year of the owner's death.
3. Owner's Life Expectancy Rule- This rule is the same as the Beneficiary Life Expectancy Rule except the divisor is based on the IRA owner's age in the year of death, reduced by one of each subsequent year. This rule is only used if the owner dies after the required beginning date. Under this rule, the RMD must be taken on or before December 31st of the year following the year of the owner's death.

#### B. Non spouse(s) Individuals as Beneficiary(ies)

1. If the owner had reached his/her required beginning date, the beneficiary may use the longer of owner's Life Expectancy Rule or Beneficiary Life Expectancy Rule to determine RMD.
2. If there is more than one beneficiary, all beneficiaries must be individuals to use Beneficiary Life Expectancy Rule and must use the age of the oldest beneficiary.

The beneficiaries may create separate accounts by December 31 of the year following the owner's death and then each beneficiary may use her or his own age to calculate the RMD.

#### C. The Spouse is Designated Beneficiary

1. The spouse may recalculate life expectancy each year and use a new division from the Single Life Table.

-Upon the death of the spouse, RMD's are calculated based on the spouse's life expectancy calculated in the year of death reduced by one for each subsequent year.

2. Distributions to the spouse may begin at the later of (1) December 31 of the year following the year in which the owner died or, (2) December 31 of the year in which the owner would have attained age 70 ½.

#### D. Qualified Trust As Beneficiary

1. RMD is determined by the Beneficiary's Life Expectancy Rule based on the oldest trust beneficiary's age.

-Separate account rules do not apply to trusts. If there are multiple beneficiaries or multiple trusts, cannot separate the IRA and use each beneficiary's life expectancy.

#### 2. Qualified Trust Requirements

-Valid irrevocable trust

-Trust document must be delivered to the IRA trustee or custodian by October 31 of the year following the year of the IRA owner's death.

-All beneficiaries of the trust must be identifiable and must be individuals.

-Conduit trust- if all distributions from the IRA must be distributed to current beneficiaries, only consider that beneficiary (if beneficiary is the spouse, special spouse or beneficiary rules still apply)

-Non-conduit trust- If from IRA can be accumulated in the trust, must consider the current and remainder beneficiaries.

#### Special Rules

A. General Rule- The determination of who the beneficiary of an IRA is has to be made on September 30 of the year following the year of the owner's death. Any person who was a beneficiary as of the date of the owner's death, but is not a beneficiary as of September 30 of the following year is not taken into account determining the designated beneficiary for RMD purposes.

-Full distribution- A beneficiary who receives her or his entire interest in the IRA prior to September 30 will not be considered in determining the designated beneficiary.

-Qualified Disclaimer- A beneficiary who disclaims her or his interest in an account prior to September 30 of the year following the IRA owner's death will be disregarded. The

beneficiaries who take as a result of a disclaimer will be considered the beneficiaries for determining the IRA.

-Death of Beneficiary- If the named individual beneficiary is living at the death of the IRA owner, but dies before September 30 of the year following year without disclaiming the deceased beneficiary continues to be treated as a beneficiary for purposes of determining the designated beneficiary without regard to the identity of the successor beneficiary who is entitled to the distributions.

#### B. Spousal Rollover Election

-Only a spouse may rollover an Inherited IRA into a new IRA in spouse's name. Spouse becomes owner and distribution rules are the same as for owner.

-If spouse is sole beneficiary for an IRA, the spouse can make an election to treat the IRA as her/his own IRA without an actual rollover by (1)re-designating the account in the spouse's own name as owner rather than beneficiary, (2) failing to take the RMD determined as if the spouse were the beneficiary or (3) by making an additional contribution to the account.

-Spouse may still rollover an inherited IRA even if an estate or trust is beneficiary if (1) IRA must be paid outright to spouse or to a marital trust and spouse has full right of withdrawal, or (2) spouse is sole executor or trustee and can allocate IRA to herself/himself either outright or to a marital trust where spouse has right of withdrawal.

-Rollover must be made by December 31 of the year following year of death.

#### C. Aggregation of IRA's

-IRA owner can aggregate all IRAs of which she/he is owner. The RMD can be taken from any one IRA account.

-Owners of IRA's cannot aggregate IRA's of which she/he is the beneficiary.

-IRA beneficiary may not aggregate inherited IRA's from different decedents. RMD's for each account must be from those separate IRA's.

**REMEMBER-** Consult with your advisor before touching an Inherited IRA!

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