

Updated Guidance for Inherited IRAs

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When the SECURE Act went into effect in 2020, it significantly changed how beneficiaries take required minimum distributions (RMDs). [1] Previously, heirs could take distributions over their life expectancy, per the IRS Uniform Life Table [2]. If the original owner passed away after January 1, 2020, inherited IRAs are subject to the 10-year rule, where non-eligible designated beneficiaries are now required to liquidate the entirety of the inherited account within 10 years.

Who Are Eligible Designated Beneficiaries?

These beneficiaries are still able to take advantage of the stretch IRA; that is, they can stretch distributions of these accounts over their lifetime as defined in the IRS Uniform Life Table.

- IRA owner's spouse
- IRA owner's minor child (once they reach the age of majority, the 10-year rule applies)
- An individual who is not more than 10 years younger than the IRA owner
- Disabled (as defined by IRS)
- Chronically ill (as defined by IRS)

When Do Distributions Need To Be Taken?

Initially, guidance was unclear on the timing of distributions within that 10-year period. In 2022 the IRS released proposed rule changes, and while the rule has not been finalized it helps direct us to what is likely to come. Under this proposed change, IRA beneficiaries must take annual RMDs if the original owner died after their required beginning date. [3] What that means is that if you inherited an IRA after 2019, and are a non-eligible designated beneficiary, you are required to take an annual distribution and deplete the entire account within 10 years.

Are you a non-eligible beneficiary who inherited an IRA in 2020 or 2021 that has not taken an RMD? The IRS has stated that this guidance will not go into effect until 2023 at the earliest. Penalties will not be incurred for skipped distributions in 2020 and 2021, which is substantial as missing an RMD is subject to a 50% penalty. If you have already paid the penalty for missed RMD, these amounts can be waived.

Planning Guidance

This change has warranted a big shift in planning, as accelerated distributions can significantly increase income taxes for many beneficiaries. This updated guidance is significant as it allows beneficiaries to delay distributions through 2022 and give heirs more time to plan for these changes. More potential changes may be coming with the SECURE Act 2.0 that is currently making its way through Congress. Key provisions include increased RMD age from 72 to 75, an increase in catch-up contributions, and expanded penalty-free early withdrawals. [4] If you have recently inherited an IRA and/or may be effected by these proposals, we recommend reviewing with your financial and tax advisors to figure out how these changes impact you and the best way to plan distributions. If you would like to learn more about how Evergreen's integrated wealth team can help you, [click here](#) to take our client compatibility survey.

[1] <https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions>

[2] https://www.irs.gov/pub/irs-tege/uniform_rmd_wksht.pdf

[3] https://www.irs.gov/pub/irs-drop/n-22-53.pdf?inf_contact_key=7ce72239dbfcbeeb16f04afa353ffda6 [1]
<https://www.congress.gov/bill/117th-congress/house-bill/2954/text>

[4] <https://www.congress.gov/bill/117th-congress/house-bill/2954/text>

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