

INTERNAL REVENUE SERVICE

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Inherited an IRA? Here's What You Need to Know

Ever since the SECURE Act passed in 2020, there has been a certain amount of confusion over the effects this would have on taking distributions from an inherited IRA. The answer is finally here – or at least closer.

HERE'S THE BACKSTORY:

The SECURE Act effectively eliminated the Stretch IRA technique, which had allowed beneficiaries to stretch their minimum distributions from an inherited retirement account over their life expectancy. Instead, the new law said most non-spousal beneficiaries of owners who died in 2020 or later would have to liquidate those accounts within 10 years of the death of the owner. Spouses and some others were exempt, but accounts left to healthy grandchildren, adult children and others would be subject to the 10-year rule. This group was referred to as “non-eligible designated beneficiaries,” or NEDBs.

For a while, it looked like some of these beneficiaries of IRA owners who died in 2020 would be required to take a distribution from the inherited account during 2021 – months before

this guidance was even provided. But now the IRS has provided an update: Beneficiaries of inherited IRAs that are subject to the new 10-year rule (and might have had to take minimum distributions each year) will not be penalized if they fail to take a distribution from those accounts this year.

NEVERTHELESS, THERE ARE A FEW THINGS IRA BENEFICIARIES SHOULD BE AWARE OF:

- The IRS didn't specifically waive the RMD requirement for those affected beneficiaries. However, without a penalty in place for not taking the distribution, there appears to be no consequences – for now – to not withdrawing the RMD.
- This is also not a blanket waiver of RMDs for all account owners, so retirees beyond age 72 should still take their 2022 RMD as planned. ►

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- This change also does not affect those beneficiaries who are not subject to the 10-year rule, like surviving spouses and minor children.

Even though distributions are not required for NEDBs for 2022, they may still want to take a distribution of some amount. The total taxes paid by the beneficiary may be lower by taking smaller withdrawals over more years.

But that's not the end of the story, as the IRS still intends to provide final rules eventually. Those rules could range from waiving the annual distribution requirement (but keeping the requirement to empty the account within 10 years) to requiring the prior-year RMDs to be withdrawn in 2023 to anything in-between. Affected beneficiaries should continue to watch this issue and begin planning their strategy for depleting those accounts.

Talk with your Financial Advisor if you have any questions on how to properly follow the guidance. Your Baird Financial Advisor is connected to estate planners and tax planners that can help you plan accordingly.

Please reach out if you or anyone you know would benefit from discussing this topic further.

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