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Top Tips for Inherited IRAs

This is an extra resource to go along with the original article:
3 Retirement Tax Traps to Avoid

Inherited IRAs have different rules than your typical Traditional and Roth retirement accounts. They begin after the death of the original owner. Unless you are the spouse of the original owner, the funds must remain in a separate accounts with strict rules and distribution requirements.

IMPORTANT QUESTIONS ABOUT THE ORIGINAL ACCOUNT

1. Who is listed as the beneficiary or beneficiaries on the account?
*Trusts and Estates have much different, more restrictive rules than individual named beneficiaries

2. Was it a Traditional or Roth IRA?
- Withdrawals from a Traditional Inherited IRA will be taxed as ordinary income
- Withdrawals from a Roth Inherited IRA will be taxed free

3. What was the birthday of the original account holder? Did they make the Required Minimum Distribution (if necessary) in the year of their death?

YOUR CHOICES FOR DISTRIBUTIONS

If you're the spouse you can:	If you transfer funds to an Inherited IRA, you can:		
Roll the funds directly into your IRA	Withdraw funds immediately • Watch out for significant tax implications • This option eliminates tax deferred growth potential	Withdraw entire account within first 5 years	Stretch distributions over beneficiary's lifespan meeting Required Minimum Distribution each

SPECIAL CIRCUMSTANCES FOR INHERITED IRAs

- Withdrawals prior to age 59 1/2 do not incur the 10% Early Withdrawal Penalty
- Stretch withdrawal options are not available for most Trust and Estate beneficiaries. Also, they often fall into the highest tax brackets
- Inherited IRAs do not have the same level of bankruptcy protection as Traditional and Roth accounts
- Larger withdrawals in low income years can allow you to reduce your overall tax liability on an Inherited IRA

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