Can I Delay the RMD from a Traditional IRA That I Inherited?

Your Personal CPA Andrew Ellis counsels his clients on strategy

Reading Time: 3.0 minutes

- All RMDs are suspended for 2020
- Know the Rules: the 10-Year Rule vs. Life Expectancy Rule
- Distribution plans depend on your age, plans
- Andrew Ellis may find some unexpected tax savings

By Chris Blakely

Savvy investors are aware of the required minimum distribution (RMD) obligation from their own portfolio. But what happens when you inherit a traditional IRA?

Andrew Ellis, "the Investors CPA", says that the correct answer depends on a few key considerations.

> Assuming you are a non-spouse beneficiary, your RMD requirements in years 2021 and beyond generally will depend on your life expectancy.

Taxes waived for 2020

Thanks to the Coronavirus Aid, Relief, and Economic Security (CARES) Act, all RMDs are suspended for 2020. Mr. Ellis says that you need not take an RMD in 2020 for any IRAs, 401(k)s, Roth 401(k)s, as well as inherited accounts.

Whether or not you can delay the RMD in 2021 depends on your unique situation.

The 10-Year Rule

Assuming you are the beneficiary from someone other than your spouse, you need to draw down the balance in the inherited account within 10 years after the year of the prior owner's death ("the 10-year rule").

Exceptions to the 10-year rule occur when the heir is a minor child of the owner, fewer than 10 years younger than the owner, disabled, or chronically ill. In such cases, a greater deferral is allowed under the "Life Expectancy Rule." Consult the IRS' Single Life Expectancy Table, beginning the year after the year of the owner's death. Mr. Ellis says this can be especially beneficial for younger heirs. By taking smaller distributions over their lifetime, new owners can stretch the tax deferral advantages of the account.

Sole beneficiary or shared?

Determine if you are one of several beneficiaries. It's important to separate your portion of the decedent's IRA into an inherited IRA (sometimes called a beneficiary IRA). Do so as quickly as possible. If you miss the conversion deadline, your RMD calculation will be based on the oldest beneficiary's life expectancy. If that person is older than you, you will be forced to take a larger distribution.

Mr. Ellis also recommends any new account or rollover be carefully managed as a trustee-to-trustee transfer. Miss a step here and your inheritance can be seen as ordinary income, taxed in the year that you transfer it.

Can I cash out the account?

Beneficiaries may need money now, especially if incomes have been affected by the 2020 Coronavirus shutdowns. Any amount cashed out may be subject to penalties, Mr. Ellis says, particularly if the distribution is taken prior to the specified retirement age.

Withdrawal from traditional IRAs create taxable income, Mr. Ellis cautions. For Roth IRA beneficiaries, he encourages heirs to hold off on withdrawal as long as possible as the investments are accruing tax-free.

Before making any withdrawals, it is best to consult a CPA familiar with IRAs and their consequences.

Your guide through the tax pitfalls

Mr. Ellis finds tax savings for his investor clients. He works to help each investor keep more of their investment returns. Often, an investment can be rolled over into another form of retirement savings. An investment windfall can be directed into a child's 529 educational savings plan. Or money can be directed to help meet a client's philanthropic goals. "As 'the personal CPA', I enjoy getting creative to help my clients get the most from their investment gains," Mr. Ellis said.

In more than 20 years as a CPA in Knoxville, Andrew Ellis has helped hundreds of clients maximize their tax savings. Working with individual investors, exclusive of the concerns of their commercial business, allows both parties to truly focus on what is best for the investor, and his/her family.

Guaranteed tax savings

Mr. Ellis is currently guaranteeing tax savings for individuals working with other CPAs or handling their own taxes. For more information, visit returnyourmoney.andyellisfiduciary.com <<link>>

In East Tennessee, consider Andrew Ellis as your personal "investor's CPA."

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Andrew Ellis is a Certified Public Accountant and a Certified Financial Planner® professional. Andy is one of a handful of elite CPAs nationally who is also a Chartered Financial Analyst®, the gold standard in the investment industry. He holds a Bachelor of Science degree from the University of Tennessee. Along with wife Holly and four active children, Andy makes his home in West Knoxville.

Let's talk about your unique situation: schedule an appointment with Andrew B. Ellis, CPA, CFP, CFA Financial Advisor by calling (865) 344-2965 or contact us <<link>>.