Quarterly Financial Integration Planning Opportunity
"Inherited IRAs"

When establishing an Individual Retirement Account (IRA), it is standard policy for the account owner to designate one or more beneficiaries to receive the economic rights to the IRA at the death of the owner. Designated beneficiaries are generally a spouse or a non-spouse. We thought it would be helpful to review the distribution alternatives that beneficiaries have when inheriting an IRA from the deceased owner.

Taxable Distribution Alternative That is Available to Spouse and Non-Spouse Beneficiaries

- A payout of the inherited IRA account is available within five years from the date of death of the IRA owner. The distribution will be subject to income tax in the year of receipt based upon the overall tax implications of the recipient beneficiary (*this is generally the least tax favorable alternative*).

Spouse Beneficiary Distribution Alternative

- Generally, a spousal beneficiary will prefer to defer the income tax applicable to a payout distribution. A spousal beneficiary of an inherited IRA has a unique opportunity to roll the inherited IRA funds into an Individual Retirement Account in his/her own name that will result in their being considered the "owner". As owner, the spouse beneficiary is subject to the rules applicable to non-inherited IRAs. Always accomplish the account transfer via a trustee to trustee transfer (*this is the preferred tax favored alternative for spousal beneficiaries*.)

Non-Spouse Beneficiary Distribution Alternative

- Though a non-spouse IRA beneficiary may not rollover the inherited IRA into their own IRA, they may avoid the negative income tax implications of a lump-sum distribution by having the account proceeds transferred into an "inherited IRA". This will allow for the deferral of income tax implications subject to IRS guidelines.
    - An Inherited IRA must be carefully titled in accordance with IRS guidelines to qualify as a designated beneficiary distribution account. This account title will reference the deceased account owner. Always accomplish the account transfer via a trustee to trustee transfer.
    - The designated beneficiary of the inherited IRA will be required to annually receive distributions (RMDs) based on their life expectancy. The IRS has issued a life expectancy table to be utilized to calculate the RMDs from an inherited IRA. The initial distribution will begin in the year following the death of the original account owner. The life expectancy table utilized is based on the "IRS Single Life Expectancy Table". The RMD for an inherited IRA will be determined using their age in the year following the year of death of the original account owner. For subsequent years, the life expectancy factor is determined by subtracting one from each year since the year of death from the initial life expectancy factor.

The preceding comments do not address other issues that may arise if the beneficiary is the Estate, a Trust or if there are multiple beneficiaries. In all inherited IRA circumstances, we encourage you to include a competent tax advisor in the evaluation of your alternatives.

Please contact us if you have questions or would like to review planning related to your IRA beneficiaries.

Sincerely,
Your TD Capital Team