

INHERITED IRA Q&AS

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Each week the Ed Slott team answers questions from financial advisors across the country. Sometimes we see a pattern in repeating questions, sometimes the questions are relatively basic, and sometimes they are real stumpers. We never know what the next phone call or email will bring. Recently, we've fielded a rash of inherited IRA inquiries. Here are a few:

Can a QCD (qualified charitable distribution) be done from an inherited IRA? For whatever reason, this question came up a few times over the last couple of weeks. The answer is: Yes, a QCD can be done from an inherited IRA. However, the standard QCD rules apply. Meaning, the current owner of the inherited account must be 70 ½ years old or older to qualify. It is not good enough that the previous owner of the IRA was beyond the QCD age. So, if Thomas is 75, dies, and leaves his IRA to his younger siblings Sally, age 73, and John, age 68, only Sally can do a QCD from her inherited IRA. John will have to wait until he is 70 ½.

Can an inherited IRA ever be moved into your own IRA? This is a bit of a trick question. A non-spouse IRA beneficiary can never transfer an inherited IRA into his own IRA. This is true for traditional IRAs and for Roth IRAs. Both must remain as inherited IRAs for non-spouse beneficiaries. However, a spouse beneficiary has more options. A spouse beneficiary CAN transfer an inherited IRA into her own IRA. But under what circumstances would this happen? Wouldn't a spouse just do a spousal rollover from the very beginning and completely bypass an inherited IRA? Not necessarily. Younger surviving spouses – those under 59 ½ - should consider an inherited IRA before a spousal rollover. An inherited IRA allows the surviving spouse full access to the IRA dollars without the 10% early withdrawal penalty.

Additionally, a surviving spouse has the benefit of not having to take RMDs

(required minimum distributions) on the inherited IRA until the deceased spouse would have been age 72. Note that a spousal rollover can be done at any time. So, when the surviving spouse reaches age 59 ½, regardless of how far into the future that is, the inherited IRA can then be moved into her own IRA via a spousal rollover.

Must I consider inherited IRAs for the pro-rata rule? No, inherited IRAs are disregarded for pro-rata. In this case, the account holder wanted to do a Roth conversion. However, he was over 72 and subject to RMDs. Before any conversion could be completed, the RMD had to be taken first. Once that was accomplished, he could proceed with the conversion. But he had after-tax dollars (basis) in his IRA, and the advisor knew that targeting only those after-tax dollars for conversion was not permitted. The pro-rata math had to be done to determine the ratio of after-tax dollars to pre-tax. When doing the calculation, inherited IRAs are always ignored.

If a charity beneficiary takes a lump sum payout, will that satisfy the year-of-death RMD for the remaining living beneficiaries? Yes, assuming the payout to the charity is enough to cover whatever remains of the year-of-death RMD. Ultimately, the IRS does not care which beneficiary takes the year-of-death RMD, it just wants it to be taken. If a payout to a charity beneficiary is enough, then the remaining living beneficiaries are off the hook for the year-of-death RMD and can proceed with their inherited IRAs unencumbered.

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