



2020 IRA Beneficiary Checklist: SECURE Act

For Beneficiaries that Inherit IRAs After December 31, 2019

Protect inherited IRAs from unintended tax consequences and penalties

The *Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019* (the SECURE Act), made changes to the distribution options available to those who inherit retirement accounts. This includes the elimination of the age of death of the IRA owner as a factor for determining the distribution options available to the beneficiary of an IRA in certain cases, and the creation of a new definition of beneficiary - Eligible Designated Beneficiary.

Use the “2020 IRA Beneficiary Checklist: For Beneficiaries that Inherit IRAs December 31, 2019 or earlier”, to determine the options available to such beneficiaries

The following is a summary of the beneficiary options for those who inherit IRAs after December 31, 2019¹.

Eligible Designated Beneficiary ²	Designated Beneficiary ³	Nondesignated Beneficiary ⁴
<ul style="list-style-type: none"> • Spouse beneficiary only: Move the inherited IRA to the spouse’s own IRA or other eligible retirement account (spouse only) • Spouse beneficiary only: Keep the assets in a Beneficiary IRA and take distributions over the spouse’s life expectancy, beginning the <u>later of (a)</u> December 31 of the year in which the IRA owner would have reached age 72, had he lived, or (b) December 31 of the year that follows the year in which the IRA owner died • Nonspouse: Keep the assets in a Beneficiary IRA and take distributions over the beneficiary’s life expectancy, beginning December 31 of the year that follows the year in which the IRA owner died • Keep the assets in a Beneficiary IRA and take distributions under the 10-year rule. Under this rule, distributions are optional until December 31 of the 10th year that follows the year in which the IRA owner died, at which time the entire IRA balance must be withdrawn by the beneficiary. 	<ul style="list-style-type: none"> • Keep the assets in a Beneficiary IRA and take distributions under the 10-year rule. Under this rule, distributions are optional until December 31 of the 10th year that follows the year in which the IRA owner died, at which time the entire IRA balance must be withdrawn by the beneficiary. 	<ul style="list-style-type: none"> • If the IRA owner dies before the RBD: Keep the assets in a Beneficiary IRA and take distributions under the 5-year rule. Under this rule, distributions are optional until December 31 of the 5th year that follows the year in which the IRA owner died, at which time the entire IRA balance must be withdrawn by the beneficiary. • If the IRA owner dies on/after the RBD: Keep the assets in an inherited IRA and take distributions over the decedent’s remaining life expectancy beginning by 12/31, of the year following the year in which the IRA owner died.

¹ The IRS is expected to issue follow-up guidance. We will let you know if such guidance includes any technical corrections.

² An eligible designated beneficiary is a beneficiary designated as beneficiary of the IRA, by the IRA owner or determined under the IRA agreement and is :**A.** the surviving spouse of the IRA owner **B.** a child of the IRA owner who has not reached the age of majority, as defined under state law. Once the child reaches the age of majority, that child becomes a regular designated beneficiary, and has 10 years (after reaching the age of majority) to distribute the inherited IRA **C.** a designated beneficiary who is disabled- which generally means meeting the social security administration’s definition of disability **D.** a chronically ill individual – subject to meeting certain specific requirements, or **E.** an individual not described in any of the preceding requirements, who is not more than 10 years younger than the IRA owner.

³ A designated beneficiary is any beneficiary that is not an eligible designated beneficiary or a nonperson

⁴ A nondesignated beneficiary is a beneficiary that is not an eligible designed beneficiary or designated beneficiary

Change in Successor Beneficiary Options

The person who inherits an IRA from the owner who created and funded the IRA is the original or first-generation beneficiary. And, the party that inherits an IRA from the original beneficiary is a successor beneficiary.

If an original beneficiary was taking distributions over his or her life expectancy under the pre-SECURE Act rules, and dies by December 31, 2019, the successor beneficiary would be permitted to continue taking distributions over the original beneficiary's remaining life expectancy.

Under the SECURE Act, if an original designated beneficiary that inherited an IRA before December 31, 2019, dies after December 31, 2019, the successor beneficiary must take distributions under the 10-year rule.

Beneficiary Checklist

One seemingly simple mistake can cause a beneficiary to lose tax benefits, owe penalties to the IRS, or take a distribution they didn't intend to take. Prevent errors by using this checklist when handling inherited IRAs:

- ✓ **Determine date of death of the IRA owner.** Knowing when the IRA owner died is the first step in determining:
 - a) Whether the beneficiary is still within deadlines for completing certain tasks, including determining who is the true designated beneficiary, if any. And,
 - b) Whether the SECURE Act or Pre-SECURE Act rules apply
- ✓ **Continue to apply the rules that were not changed under the SECURE Act. These include:**
 - **Impermissibility of rollovers for nonspouse beneficiaries.** A nonspouse beneficiary that wants to move inherited IRA assets from one Beneficiary IRA to another, must do so as a nonreportable trustee-to-trustee transfer.
 - **The September 30th deadline, for determining if an IRA has a designated beneficiary.** Under this rule, an IRA is considered to have a designated beneficiary, when there are no nonperson beneficiaries remaining for the IRA, as of September 30 of the year that follows the year in which the IRA owner died. This means that the deadline for beneficiaries who inherit IRAs in 2019, is September 30, 2020.
 - **The December 31 separate accounting deadline, for multiple beneficiaries that inherit IRA.** Under this rule, if there are multiple individuals and no nonperson beneficiaries remaining as of September 30th of the year that follows the year in which the IRA owner died, the life expectancy of the oldest beneficiary must be used to calculate post death distributions; unless separating accounting occurs by December 31, of the year following the year in which the IRA owner died- allowing each beneficiary to use his/her own life expectancy. This means that the separate accounting deadline for beneficiaries who inherit IRAs in 2019, is December 31, 2020.
- ✓ **Look for special planning opportunities for spouse beneficiaries.** The distribution options that are available to spouse beneficiaries are more flexible than those that apply to other beneficiaries. For example, the spouse beneficiary can transfer/roll over an inherited IRA to his/her own IRA or other retirement account. If a spouse beneficiary is under the age of 59 ½, and will be taking distributions from the inherited amount before reaching age 59 ½, consider whether it makes better tax sense to keep the assets in an inherited IRA, which would exempt distributions from the 10% early distribution penalty.
A spouse beneficiary that elects the 10-year option may change to the life expectancy option, before the 10th year.
- ✓ **Ensure that beneficiary RMDs are taken by the deadline.** RMDs that are not taken by the deadline are subject to a 50% excess accumulation penalty. Unless an exception applies, there is no RMD deadline until December 31 of the 10th year that follows the year of death, at which time, the entire remaining balance is the RMD.

Please note: The IRS will waive this penalty if the deadline was missed due to reasonable cause. IRS Form 5329, Additional Taxes on Qualified Plans (including IRAs) and Other Tax-Favored Accounts must be filed to report any excess accumulation penalty. This applies even if a penalty-waiver is being requested.

The SECURE Act changed the landscape for beneficiary planning, including limiting the distribution options for beneficiaries. This requires revising estate plans that include IRAs, including those that would cause trusts to be the beneficiaries of IRAs. Ensure IRA owners and beneficiaries consult with an estate planning attorney, to ensure that any required changes to their estate plans are made.

As required by U.S. Treasury Regulations, please be advised that any written tax advice contained in this communication was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the U.S. Internal Revenue Code.