

Your Child as the Beneficiary of your IRA



Prior to 2020, your child could inherit your IRA and “stretch” the payments over their lifetime.

Example: In 2018, you die and leave your IRA to your child (C), age 50. In 2019, C will be 51. The single life expectancy was 33.3 years. In 2019, C would have to take $1/33.3 = 3\%$ of the IRA.

NEW RULES IN 2020

At the end of 2019, the Secure Act did away with “stretch” for most beneficiaries.

The Secure Act required most non-spouse beneficiaries to completely distribute the inherited IRA within 10 years.

THE RULES HAVE BEEN DELAYED UNTIL 2025

Because the new rules are so complex, no distributions have been required from 2020-2024. But the IRS has now issued final regulations effective in 2025.

RULES FOR NON-SPOUSE BENEFICIARY GREATER THAN 10 YEARS YOUNGER (NOT YOUR MINOR CHILD)

Example: This will most affect how your children must take money from their inherited IRAs.

The rules are different depending on whether you die before or after your Required Beginning Date (RBD)—the April 1st after you reach 73.

DIE BEFORE RBD – IRA

An IRA must be distributed by December 31st of the 10 year anniversary of your death.

You die at age 70 with \$1 million IRA in 2024. Your child would have to have your IRA distributed by 12/31/2034.

Let's say the \$1 million IRA earns 8%. If your child wants to spread the payments over the 10 years, the yearly distribution would be \$149,029.

The extra income from a large IRA may well cause your child to pay taxes in a higher tax bracket.

DIE AFTER RBD – IRA

In addition to distributing all of the IRA in 10 years, the child must take required distributions in years 1-9 based on the child's life expectancy.

This is unlikely to cause a problem because the child will likely want to spread the IRA out over the 10 years anyway.

SPECIAL RULE FOR ROTH IRAs

For Roth IRAs, you are treated as dying before your RBD.
So no distributions are required until year 10.

This is a very beneficial rule, as your child can leave the Roth IRA alone for years 1-9 earning tax-free income.

SPOUSES DO NOT USE THE NEW RULES

These rules do not apply to spouses or a non-spouse beneficiary less than 10 years younger.

The new rules are complicated.
If you have any questions, contact our office.