PBS_Ep167-A PBS Ep167 AskPB Inherited IRAs Trans Audio

Patti Brennan: Hi, everybody. Welcome to "The Patti Brennan Show." Whether you have $20 or $20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

Today is part of the series, the "Ask Patti Brennan" and we're going to be talking about inherited IRAs. You might think, oh, what a boring subject, and it is sort of boring. But, let me tell you, there's been so much misinformation. This is a topic like the Corporate Transparency Act where not knowing is no excuse, and the penalties are severe.

First, what's an inherited IRA? Let's say that my mom had an IRA or a 401K and she left it to me as the primary beneficiary. That becomes an inherited IRA.

What are the rules? Pretend for a minute that I'm the beneficiary. Under the old rules, it could stretch out over my life expectancy. Now, it's complicated, but it certainly helped to navigate the tax bite because you also were able to defer the tax bite over a lifetime, making things much better.

PS- If you are one of my brothers or sisters listening to this podcast, no, I did not receive an inherited IRA from mom! Her estate was split evenly amongst seven children, and, yes, I was the executor.

Then the SECURE Act 1.0 was passed, and that was a game changer. Suddenly, anybody that received an inherited IRA must have that out of the tax shelter within 10 years. But there was no guidance in terms of whether you must take out one-tenth per year, or do you have to do follow some kind of table? What were the rules? There was no guidance whatsoever.

Next, the SECURE Act 2.0 was passed, and we were finally hoping there would be some guidance. It didn't happen then. When I say no guidance, here is the issue. Let's say that there is a big IRA, let's say it's $.5 million.

In that situation, we know that it must be out of that account in 10 years, but could you wait until the last year and take it all at once? Yes. That's a lot of taxable income all in one year, but maybe that's the right thing.

Or let's say that we've got somebody who is 55 years old. They want to retire when they're 60. They don't do anything from 55 to the age of 60. They don't take any money out, and then that becomes their source of income for the next five years. We didn't have any guidance whether that was okay or not. Fast forward, here it is 2024 and we now know what the deal is.

Basically, there are two levels. Number one, if the original owner was not subject to required minimum distributions, you still must have it out within 10 years, but you can do it as you wish. In other words, there are no rules in terms of when you must take money out. Do you have to take it out every year, etc.?

The second tier are those people -- and this is probably many people listening -- where the original owner, who is now deceased, was subject to required minimum distributions, then the beneficiary must take it out at least as rapidly. It's called the ALAR, A-L-A-R, at least as rapidly.

If mom or dad was subject to the RMDs and they were taking out 5%, then the beneficiary also must take out that 5%. But the entire account must be out of that shelter taxable in a taxable account within year 10.

Now it is 2024 and these rules have been around for four years. What if you haven't taken anything out? The good news is we all get a Mulligan. In other words, if you haven't taken anything out, it's okay. There is no penalty.

Fast forward to 2025, you must start taking money out of that inherited IRA in that second tier, which most people are probably going to be subject to. You want to figure out how old mom or dad was or whoever it was when you inherited it? What was the table that they were subject to at that time? You need to take out at least that much.

Then, what was the year of death? The money must be out of that tax shelter 10 years from the year of death, and it all is taxed during that period. That's where some thoughtful tax planning really needs to take place because everybody listening today is in different situations.

You want to be smart about your money, end of discussion. That's why we do these podcasts. Be smart about this issue too. The good news is you have a Mulligan

Starting next year, all bets are off. If you don't do this correctly, if you don't do it at all, you could be subject to a 25% penalty. We don't want that.

This is Patti Brennan. Thank you so much for listening today. I hope this was helpful. These Ask Patti Brennan episodes are intended to be short, quick, and to the point. I hope you like them. Feel free to go to our website at www.keyfinancialinc.com, and reach out to us. Let us know if you have any questions. That's what we're here for. Thanks so much for listening. Take care.