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Inheriting assets calls for timely decision making



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Upon inheriting a traditional Individual Retirement Account (IRA) or assets from another retirement plan, you'll need to make important decisions by deadlines that can easily slip by during emotionally difficult times.

These decisions will hinge on personal circumstances and factors that can be complex. Failing to act on time could have long-term repercussions and cost you serious money.

Start by getting together your paperwork – including the beneficiary designation form for the inherited account. If you're inheriting assets in a retirement plan account, you'll need the "plan document" from the employer.

You'll also need to hunt down your deceased benefactor's last Form 8606, which will indicate whether part of your withdrawals from the plan will include tax-free return of non-deductible contributions. You may need help sorting out your options, but you must always keep the following deadlines in mind:

Within nine months from date of death, file a disclaimer if you so choose. Suppose you've inherited the IRA from your late husband. Meeting this deadline allows you, as primary beneficiary, to give up all or part of your interest in the IRA. But why forfeit those assets?

It could help reduce estate taxes and leave more to your child or grandchild. When you disclaim an IRA, assets pass to a contingent beneficiary such as your child or maybe a charity.

Dec. 31 of the year of death is the date by which you may need to take a distribution. If the IRA owner had started taking required distributions after

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turning 70? but did not take the distribution for the year he or she died, you must withdraw the full-required amount or pay a penalty of 50 percent of the amount that should have been withdrawn.

Sept. 30 of the year following the death is the deadline for splitting the IRA into separate shares or accounts if multiple primary beneficiaries were named on the account. This is advantageous if a non-spouse inherits the IRA: He or she can take withdrawals over his or her individual life expectancy, which could reduce the size and tax consequences of mandatory distributions.

This date also ends the period during which beneficiaries can disclaim or cash out their portions of the account. A charity is likely to withdraw its share because it won't be taxed. Beyond this date, the IRA document's rules—which may be less favorable than IRS rules, particularly for non-spouses—govern how the account will be paid to beneficiaries.

This is not a deadline for the surviving spouse to decide whether to leave the IRA in the deceased's name or place the assets in the survivor's account. A spouse can make that choice any time.

Oct. 31 of the year following death is the deadline for the trustee, if a trust is beneficiary, to send the IRA custodian either a copy of the trust document or a certification of the trust's beneficiaries and their rights to the IRA.

Dec. 31 of the year following death is the deadline for inheritors to take their first distribution from the account or suffer the 50 percent penalty. If an account that has co-beneficiaries is not split by this date, the younger inheritors will forever have to receive larger than necessary withdrawals. This could deplete the account faster than otherwise.

If you've inherited a Roth rather than traditional IRA, keep in mind:

All Roth IRA contributions are non-deductible, and all are basis and can be withdrawn tax-free. The earnings also can be withdrawn tax-free as long as the account was held for more than five years, including the time it was held by the person from whom you inherited it.

Say, for example, you inherit a Roth IRA in 2003 from your uncle. He first contributed to it in 2000 and died in 2003. All distributions or contributions are tax-free whenever they are withdrawn, but the income is not tax-free until 2005 when the Roth IRA will have been held for more than five years.

The bottom line: Know the deadlines, act in a timely manner and seek professional advice if needed.

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