



Navigating Inherited IRA Rules as a Spouse

Inheriting your spouse's IRA can feel like steering through unfamiliar waters, especially during a time of grief. The decisions ahead may seem overwhelming, but knowing your options helps you chart a steady course toward financial clarity. As the surviving spouse, you have unique choices that can help preserve the account's tax-advantaged status. Some paths may keep you in calm financial seas, while others could lead to unintended tax waves.

One key maneuver: if you take a distribution from the Inherited IRA, you may roll it over into your own IRA within 60 days—provided you haven't completed another 60-day rollover in the past 365 days. This can anchor the assets in your own retirement harbor, but timing and eligibility are critical.

Inherited IRA rules can shift like tides. This guide is your compass—designed to help you avoid common pitfalls and sail confidently through the rules.

Your Situation Determines Your Decision

When you inherit your spouse's IRA, you'll need to decide whether to transfer the assets into an Inherited IRA or navigate them into your own IRA. The right course depends on:

- Your age: Under age 59½? Early or pre-59 ½ distributions from your own IRA may trigger the 10% additional tax.
- Your income needs: Do you need access now, or can you let the funds grow?

It's also vital to understand the tax currents that come with each option. Choosing the wrong vessel could lead to unexpected tax currents. But with a clear view of your needs and the rules, you can chart a course that aligns with your long-term financial horizon.

Is There Tax on the Horizon?

When you inherit an IRA, your first navigational marker is identifying whether it's a Traditional or Roth, as this sets your tax course. Generally, when you inherit a Traditional IRA, distributions are subject to ordinary income tax. These amounts are added to your other income, and since you'll be filing as a single taxpayer, they could push you into a higher tax bracket, so plan your voyage accordingly. If the IRA includes after-tax contributions, part of the distribution may be tax-free so be sure to check IRS Form 8606 to confirm.

The waters are often calmer with a Roth IRA. If you move the asset to an Inherited Roth IRA and your deceased spouse's Roth IRA is over five years old, distributions are tax-free. If not, earnings might be taxable. If you transfer the asset to your own Roth IRA, you can use longer of your or your spouse's five year holding term to meet the requirement. However, if you're less than age 59½, you may owe tax and the 10% additional tax on the earnings, even if the five-year rule is met.

And here's a bit of good news to steady your course, regardless of your age, you won't incur the IRS 10% additional tax for any taxable amounts distributed from the IRA you inherited. This thanks to the "death" exception on IRS Form 1099-R.

Distribution Options: Navigating the Next Coordinates

As a surviving spouse and Eligible Designated Beneficiary (EDB), you have several distribution paths to consider. The chart below outlines these options. Your choice depends on factors like your age, financial needs, and whether your spouse dies before or after their RMD Age*.

*Required minimum distribution (RMD) age:

- Age 75 (if born in 1960 or later)
- Age 73 (if born after 1950)
- Age 72 (if born after June 30, 1949)
- Age 70½ (if born before July 1, 1949)

Spouse	Life Expectancy (LX)	10-Year Rule	10-Year Rule with RMDs	Lump-Sum	Disclaim
Owner died before RBD	X	X		X	X
Owner died on/after RBD	X		X	X	X

Port of Possibility: Rollover or Transfer to the Spouse's Own IRA

A unique harbor opens for a surviving spouse which is the option to roll over or transfer inherited IRA assets into their own IRA. Once the assets are docked in your IRA, you assume full ownership and take the helm as the account holder.

If moved into a Traditional IRA, you'll follow the RMDs rules as an owner. If the assets are transferred into a Roth IRA, the seas are even smoother because you have no RMDs as the owner. This strategy allows you to chart a more flexible course, often delaying RMDs or optimizing tax strategies.

Port of Potential: Establish an Inherited IRA

Another route worth considering is the establishment of an Inherited IRA. This maneuver may be a smart route, especially if you are under age 59½. Distributions from an Inherited IRA avoid the 10% additional tax, unlike distributions from your own IRA. Importantly, you retain flexibility as you can always move the assets to your own IRA at any time.

This port also offers strategic shelter for spouses who've reached RMD age, while their deceased spouse had not. In such cases, RMDs can be delayed until the year your spouse would have reached RMD age, giving you more time to navigate tax planning waters.

Sailing the Stretch Strategy: Life Expectancy Option

Often called the Stretch IRA strategy¹, this option allows an EDB to take RMDs from the Inherited IRA. It's a strategy that can extend the tax-deferred growth of the Inherited IRA—if navigated correctly.

Surviving spouses may not need to take RMDs right away, depending on when the IRA owner died. Think of it as navigating shifting tides—each decision requires attention to timing and IRS rules to stay on course.

Recalculation Method: A New Course Each Year

As a surviving spouse, you use the recalculation method, meaning your life expectancy divisor is updated annually based on your age. This allows for a more dynamic and potentially tax-efficient voyage.

If your spouse reached RMD Age* before 2024, you use the Single Life Table. If they reached RMD Age in 2024 or later, the Uniform Life Table applies.

1. The "stretch" IRA isn't a specific type of IRA, but a strategy to extend an IRA's benefits beyond the IRA owner's lifetime. This approach suits individuals who won't need these assets during retirement. When considering this strategy, evaluate potential changes in tax laws, inflation effects, and other risks. For detailed guidance, consult your tax advisor.

When the Waters Get Complex: Term Certain Method

The term-certain method, which subtract one from the original divisor in each subsequent year is used if your spouse, died on or after their RMD Age, was younger than you, and their divisor is longer than yours. The divisor is based on your deceased spouse's age in the year of death, and one is subtracted from the divisor each year thereafter.

When RMDs Must Begin: Timing the Voyage

The last rule to understand is when you must begin RMDs. You will have to start RMDs from the Inherited Traditional or Roth IRA in the year your deceased spouse would have reached RMD Age or in the year after your deceased spouse died, if they had already reached RMD Age.

Spouse RMD:

$$\text{RMD} = \frac{\text{Prior IRA Year-End Value}}{\text{Single or Uniform Table Divisor}}$$

Port of Indecision - 10-Year Rule

While you can use the 10-Year Rule, it's often the least favorable harbor in which to anchor. Under this rule, an Inherited Traditional or Roth IRA must be fully emptied by the end of the 10th year after the original IRA owner's death. This means you must either spread taxable distributions over the decade or risk a tax storm by taking it all in the final year.

If your spouse dies on or after reaching their RMD Age or would have reached it while the assets are in an Inherited IRA, RMDs are necessary—even for Roth IRAs. This adds complexity to your voyage, as you must navigate both RMDs and the final full distribution by year ten. Carefully weigh this option before docking here.

Quick Departure – The Lump-Sum Exit

You may choose to disembark and not return by emptying the Inherited IRA in a single year. While this quick departure satisfies distribution requirements, it comes with a potential cost: the full taxable amount is included in income for that year, which may bump you into a higher tax bracket.

Changing Course – The Disclaimer Option

You could change course by disclaiming all or a portion of the IRA you inherited, essentially refusing the inheritance. This decision must generally be made within nine months of the IRA owner's death.

You cannot steer where the disclaimed assets go. Instead, the IRA custodian will follow the path charted by the IRA owner on the beneficiary designation form. If there are no other named beneficiaries, the IRA custodial agreement's default provisions will be used to determine who inherits.

Directing Your Options: Common IRA Strategies

Roth IRA Conversion: Charting a Tax-Efficient Course

If you inherit your spouse's Traditional IRA, you may choose to convert all or part of it into a Roth IRA in your own name. Once the assets are safely docked in the Roth harbor, standard Roth IRA rules apply. You'll owe taxes on any taxable amount in the year of conversion, which could push you into a higher tax bracket.

However, converting in the year of death, when you can still file jointly, can offer smoother sailing. Be sure to consult your tax advisor to confirm you have the resources to cover the tax bill, as this voyage is one-way: Roth conversions cannot be reversed or recharacterized once completed.

Keeping Your Compass Aligned: Updating Your Beneficiaries

Whether you anchor the assets in an Inherited IRA or transfer them into an IRA in your own name, updating your beneficiary designations is essential to ensure your legacy flows according to your wishes, not adrift in probate. IRA beneficiary forms override wills or trusts, so your charted path must be clear.

If your beneficiaries inherit your Inherited IRA, they become "successor" beneficiaries. Under current IRS rules, successor beneficiaries must follow the 10-Year Rule, as the stretch IRA strategy is no longer available to them.

Redirecting the Current: Completing a Qualified Disclaimer

With thoughtful beneficiary planning, a qualified disclaimer can offer postmortem flexibility. If you have sufficient assets elsewhere, you may choose to disclaim some or all of the IRA, allowing contingent beneficiaries—like your children—to inherit directly upon your spouse's death.

This maneuver can help them manage distributions and taxes more effectively. If they inherit all assets after your death, the larger fortune could lead to higher taxes. By redirecting the current now, you may help them sail into calmer financial waters later.

Before We Disembark: Essential Takeaways

When navigating your options, keep these key markers in mind:

Transfer vs. Conversions

- Transferring assets to your own IRA or Inherited IRA is not a taxable - smooth sailing.
- Converting the Traditional IRA to your own Roth IRA is taxable - expect a tax wave.
- You cannot convert an Inherited IRA to any type of Roth IRA—this route is closed.

RMDs

- If your spouse didn't satisfy their RMD, you must take it by December 31 of the year of death. You may owe the 10% additional tax if taking from your own IRA when under 59½, but an Inherited IRA offers a safe harbor—no additional tax.
- Missing an RMD may trigger a 25% excise tax, reduced to 10% if corrected promptly—a lifeline worth knowing.

Strategic Use of an Inherited IRA

- If you haven't reached RMD Age, starting with an Inherited IRA gives you time to chart when you'll need access to the money.
- If your spouse was not yet at RMD Age, no RMDs from the Inherited IRA are required until they would have reached RMD Age—calmer waters for now.

Anchors Aweigh: Making Informed Choices Before You Depart

Understandably, inheriting an IRA can feel like navigating choppy waters. You are not only dealing with emotional and personal matters but also making decisions with significant tax and financial implications. Before you hoist the sails and complete any paperwork to claim your inheritance, take time to learn the rules and chart a course that fits your unique situation. Be sure to speak with your trusted crew of financial, tax, and legal professionals before making any final decisions. Their guidance can help you avoid costly tax currents and ensure smooth cruising to the final port.



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