

## IRAs can lose tax-deferral benefits when inherited

We are in the middle of a huge transfer of wealth.

People who prospered in the decades after World War II are passing on in large numbers.

It used to be that pension payments, bank savings, real estate and life insurance proceeds were the primary elements of wealth transfer.



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Inheriting those assets is relatively simple, compared with the transfer and distribution rules tied to IRAs. The tax code and its treatment of inherited IRA assets is complex. Traditional IRAs and Roth IRAs have different rules. And options for spouses differ from other beneficiaries.

If you're an IRA owner or beneficiary, take our advice on the following common mistakes of inherited IRAs.

### BENEFICIARIES

IRA assets do not transfer at the direction of a will. The beneficiary is designated on the account and the asset transfers outside of probate. If you do not name a beneficiary, the assets defer to your estate and are liquidated, losing the tax-deferred character of the IRA.

Since the whole point of the IRA is to benefit from tax-deferral, make sure that the custodian of your account has the correct beneficiaries on file.

In some cases, it might be wise to name a beneficiary other than your spouse. If your spouse will have enough retirement income from other sources, consider a younger beneficiary who can benefit from a longer holding period.

### ROLLING OVER YOUR IRA

If you are a nonspouse beneficiary of an inherited IRA, do not roll over the IRA or transfer it into your existing IRA.

This can make the entire distribution taxable. You can move an IRA to the same firm that you currently use, but the titling of the account must include the name of the original owner. The IRA should be retitled to "Joe Smith, IRA, deceased, FBO (for the benefit of) Jane Smith." If there are multiple beneficiaries of a single IRA, it can be broken up into individual accounts still following the appropriate titling.

### NEEDS AND GOALS

Often, beneficiaries are grateful to have inherited the money and want to leave it alone.

However, the new beneficiary should map out his or her goals and investment strategies, particularly if the money is being passed from one generation to the next.

Inheriting an IRA full of income-producing conservative investments might not be suitable for someone 30 years younger than the original owner.

In addition, as with any investments, markets zigzag over time making it prudent to monitor the account and rebalance as necessary.

### REQUIREMENTS

Many people think that an IRA must be liquidated within five years. This is not always true. People also often fail to make annual required minimum distributions from the account.

If you miss the required minimum distribution, the IRS will charge a penalty equal to 50 percent of the amount you were supposed to withdraw.

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