



NEWSLETTER

NOVEMBER 2022 • VOLUME 30 • ISSUE 11

Some Finer Points of BENEFICIARY IRAS

By Eric Nager, CRPS®

The passage of the SECURE ACT in 2020 changed the way that beneficiary IRAs are governed. Prior to that law, if you inherited an IRA from a non-spouse, you could “stretch” the required distributions over your lifetime. Now, a non-spouse is subject to the 10-year rule, meaning that the account has to be completely depleted within 10 years.

There are three exceptions to this 10-year rule:

1. Those who are chronically ill or disabled are allowed to draw over their expected lifetimes.
2. Those who are not more than 10 years younger than the account owner who died may take distributions over their lifetimes.
3. Minor children may take minimal distributions up to age 21 and then the clock starts on the 10-year rule.

I would like to focus on some of the nuances of spousal beneficiary IRAs, since those might not be as well known. A surviving spouse has two choices with an IRA: he or she may claim it as his or her own IRA, or may take it as a beneficiary IRA. Claiming it as your own means that you are not required to take minimum distributions until you reach age 72 yourself.

If the surviving spouse takes it as a beneficiary IRA, it is not subject to the 10-year rule. You may take the required distributions over your lifetime, but there is a different table used to calculate the distributions. For a beneficiary IRA, it is the single life table, and for an IRA you claim as your own, it is the joint life expectancy table. What that means in practice is that generally a larger amount of money is forced out under the single life expectancy calculation.

If the deceased spouse reached the age of 72, you must start taking minimal distributions right away but, if not, you can wait until the year in which the original owner would have reached 72. Therefore, if the surviving spouse is older than the deceased spouse, it could make sense to take a beneficiary IRA in order to delay taking mandatory distributions.

One nice aspect of the law is that if the surviving spouse elects to take a beneficiary IRA, he or she can claim it as his or her own later. When weighing how to make this decision, we suggest consulting with your investment and tax professional to make the best choice for you. The following link is a good resource:

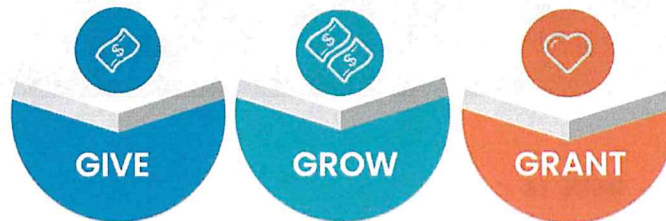
[https://
tickertape.tdameritrade.com/
retirement/inherited-ira-secure-act-
stretch-provision-16710.](https://tickertape.tdameritrade.com/retirement/inherited-ira-secure-act-stretch-provision-16710)

We Can Manage Donor-Advised Funds

What if there was a way to support all the charitable organizations you care about with one donation? There is a way to do this and it is called a donor-advised fund. Often these types of accounts are set up through local community foundations, but they can also be set up individually with investment advisers and managed by them. I recently learned that our custodian of client accounts, TD Ameritrade, has a partner organization through which a Donor-Advised Fund can be established.

A donor-advised fund works like this: you can open the account with cash, securities of publicly or privately traded companies, business interests, cryptocurrency, or

other type of asset. Once you do so, you are generally entitled to the full value of the assets as a charitable donation in the year that you contribute it. However, whatever you do contribute is irrevocably committed to charity. The funds can no longer be used for any other purpose.



There are other tax benefits as well. If, for example, you contributed stock with a low or no cost basis and it was sold within the

donor-advised fund, you would also avoid any capital gains on the stock since it would already be considered as donated to charity. Donor-advised funds are also considered outside of your estate and not subject to estate taxation.

You do not have to designate which charities get the money right away. Instead, you can do so over time. If the account grows, any gain is not subject to taxation. The only requirement for where the money can go when you decide to start distributing it is that the organization to which you give must be a qualified public charity by the IRS. If you think that a donor-advised fund might be right for you, we would be happy to have a discussion, to include your tax professional.

It's Required Minimum Distribution (RMD) Time!

The fourth quarter of the year is upon us and that means I am calling clients who have yet to take their RMDs for 2022. The penalties for not taking them are rather steep: *one half of the amount you are required to take!* so we want to make sure that these distributions do not get missed being taken. If you have yet to take yours, please call us and any of our associates can help you.

In order to avoid the end of the year rush, we are recommending

that all RMDs be taken no later than **December 8TH**. There are several ways to take them. For example, we can have the distribution sent electronically to your checking account. If you do not need the money right now, you can deposit it into a non-tax qualified account and keep it invested. In either of these cases, we can withhold the desired amount of taxation. A third option is to contribute all or a portion of the distribution to charity and avoid taxation on that portion.

Reminder

Please remember to notify us if you have had any material changes in your financial circumstances.



*This content is developed from sources believed to be providing accurate information. The information provided is not written or intended as tax or legal advice and may not be relied on for purposes of avoiding any Federal tax penalties. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel. Neither the information presented nor any opinion expressed constitutes a representation by us of a specific investment or the purchase or sale of any securities. Asset allocation and diversification do not ensure a profit or protect against loss in declining markets. This material was developed and produced by Advisor Websites and Southern Capital Services, Inc. to provide information on topics that may be of current interest.