**3644.02 What rules does an individual need to be aware of when he or she inherits an inherited IRA??**

An inherited, inherited IRA will first have to be re-registered in the name of the deceased beneficiary’s beneficiary (the “successor beneficiary”) in order for the successor beneficiary to take required minimum distributions (RMDs) from the account.

A spousal successor beneficiary is not entitled to use the special rules that typically apply to allow the surviving spouse to treat the IRA as his or her own account —based upon the logic that the surviving spouse-successor beneficiary was not the spouse of the original account owner. Instead, that successor beneficiary (whether a surviving spouse or non-spousal beneficiary) is required to take RMDs from the account based upon whatever method the original beneficiary had been using upon his or her death.

As a result, in many cases, the inherited, inherited IRA will be distributed to the successor beneficiary based upon the life expectancy of the deceased original beneficiary. The options that the original beneficiary could have chosen are summarized in the paragraphs below.

The rules governing inherited IRAs generally allow individuals to “stretch” the tax-deferral associated with these accounts by providing for distribution of the account value over a period of years following the original account owner’s death. However, there are several options that the beneficiary can choose from in taking his or her RMDs from the inherited IRA.

If the original account owner died after he or she began taking RMDs, a non-spousal account beneficiary must either take distributions based upon his or her own life expectancy or based upon the original account owner’s life expectancy—whichever is longer.[[1]](#footnote-1) If the owner died before he or she began taking RMDs, a non-spousal account beneficiary must either take distributions based upon his or her life expectancy or exhaust the account funds within five years of the original owner’s death.[[2]](#footnote-2)

An original spousal beneficiary has the additional option of rolling the inherited IRA funds into his or her own IRA and treating them as if they were traditional, non-inherited IRA funds.

The option chosen by the original beneficiary of an inherited IRA is the option that the successor beneficiary to that inherited IRA will be required to use in order to exhaust the account funds—the successor beneficiary’s own life expectancy is not a factor.

**8582.02 Can conversions from a traditional IRA to a Roth IRA cause an individual to become subject to the net investment income tax?**

Officially, distributions from traditional retirement accounts (IRAs, 401(k)s) are excluded from the net investment income tax (NIIT). Similarly, amounts that are rolled over into Roth accounts from these traditional accounts are technically excluded.[[3]](#footnote-3) While retirement account distributions (and Roth conversions)[[4]](#footnote-4) are excluded from the definition of *net investment income*, these amounts still count in determining an individual’s AGI—and can cause the individual to exceed the applicable threshold and become subject to the NIIT.

As a result, for some individuals, Roth conversions are best exercised in small steps over time—converting only a small portion of traditional retirement funds each year to avoid crossing the AGI threshold. For others, Roth conversions may no longer be the best option for generating tax-free income during retirement—especially if the individual cannot balance the added income by contributing additional pre-tax dollars to traditional accounts because he or she has already maxed out the annual contributions.

1. IRC Sec. 401(a)(9)(B)(i). [↑](#footnote-ref-1)
2. Treas. Reg. §1.401(a)(9)-3, A-1(a). [↑](#footnote-ref-2)
3. IRC Sec. 1411(c)(5), Treas. Reg. §1.1411-8(a). [↑](#footnote-ref-3)
4. Treas. Reg. §1.1411-8(b)(2). [↑](#footnote-ref-4)