

**From the desk of
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Splitting an inherited IRA before year-end can result in better tax treatment for beneficiaries

December 31, 2017 is an important deadline for individuals who have inherited an IRA.

Where there are multiple beneficiaries for an inherited IRA, splitting the account into several separate accounts for each beneficiary no later than the end of the year can yield important tax and other benefits for each beneficiary.

Designating several beneficiaries for an IRA may put the younger recipients at a disadvantage if they want to keep required minimum distributions (RMDs) as small as possible, and keep IRA deferrals going for as long as possible.

The general rule where there is more than one IRA designated beneficiary the beneficiary with the shortest life expectancy (that is, the oldest recipient) is treated as the designated beneficiary for determining distributions.

The oldest-beneficiary rule comes into play for determining Required Minimum Distributions (RMDs) after the IRA owner's passing.

Regardless of whether the IRA owner died before or after his or her required beginning date, if the IRA owner was older than any of the beneficiaries, the remaining IRA balance at the owner's death is paid out over the remaining life expectancy of the oldest designated beneficiary.

In the alternative the beneficiaries can elect to split the IRA into separate accounts no later than the end of the year following the year in which the decedent died.

When an inherited IRA is divided into separate accounts (i.e., subaccounts), the RMD rules separately apply to each separate beneficiary effective for years after the year in which the separate accounts were created, or the IRA owner's date of death, if later.

For the separate or "subaccount" IRA to be treated as a separate account for RMD purposes it must be established no later than the last day of the year following the year of the IRA owner's death.

Additionally a separate accounting must allocate all post-death investment gains and losses for the period before the separate accounts were established on a pro rata basis in a reasonable and consistent manner among the separate accounts.

Once the separate accounts are established separate accounting can provide for separate investments for each separate account under which gains and losses from the investment of the account are only allocated to that account.

Alternatively investment gains or losses can continue to be allocated among the separate accounts on a pro rata basis.

A separate accounting must allocate any post-death distribution to the separate account of the beneficiary receiving that distribution.

The account-dividing rules for beneficiaries of regular IRAs also apply to Roth IRAs, thus where there are multiple beneficiaries of a Roth IRA their distributions after the date of the account owner's death generally will be based on the life expectancy of the oldest beneficiary unless they create separate subaccounts before the end of the year following the year in which the account owner died.

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