



What You Need to Do After You Inherit an IRA

If you receive an inheritance, it might come in the form of property, a bank account, or brokerage account. But what if you receive an inheritance from someone's individual retirement account?

IRAs are different from regular brokerage accounts.

A regular brokerage account is normally structured as either an "individual" or a "joint" account, and a person's will determines how the assets will be distributed upon his death. An IRA, on the other hand, is normally distributed via a "beneficiary designation." That's actually much easier because when a person sets up his IRA, he instructs the brokerage firm or bank to list the names of primary beneficiaries (and contingent beneficiaries if one of the original ones has died). It's a comparatively easy procedure to move the money from an IRA to the proper beneficiary.

Make sure you read this before receiving an inheritance from an IRA. One of the great benefits that the United States gives the recipients of an IRA is that the assets inside the account may continue to grow tax deferred if they are transferred in a certain way. The recipient can transfer the money from the deceased's IRA to a "beneficiary IRA" and continue to have it grow tax-deferred. The inherited assets in an IRA can be sold (in the IRA) and other securities (like stocks, bonds, and mutual funds) can be bought in accordance with the new owner's wishes. There is no need to maintain the inheritance in the exact positions as you received it. Except for mandatory distributions, the assets themselves aren't subject to U.S. tax as long as they remain in the beneficiary IRA. The mistake many people make is that they:

1. Withdraw the money from the IRA immediately upon receipt of the inheritance
2. Pay a large tax, and then
3. Reinvest the money in something else.

Wouldn't you rather skip step #2?

If you are designated as a beneficiary of someone else's IRA, or if you have an IRA account that you plan to leave your kids one day, make sure everyone understands the importance of maintaining the tax-deferred status as long as possible. If you're not sure how this affects you, send an e-mail to info@profile-financial.com and type "IRA" in the subject line.

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