

## RMDs for a Son Beneficiary of Dad's 401(k), Traditional IRA and Roth IRA

In 2012 an IRA Custodian had set up three inherited IRAs for John Doe. John's father, Allen, had died in 2012 at the age of 66. John was the beneficiary of his dad's 401(k) plan (\$225,000), his dad's traditional IRA (\$30,000) and his dad's Roth IRA (\$35,200). Allen had established his traditional IRA in 1995 and his Roth IRA in 2003. John had instructed the 401(k) administrator to directly roll over the 401(k) funds into an inherited traditional IRA.

The tax rules are not totally clear that John is permitted to combine the inherited 401(k) funds with the inherited traditional IRA so that there would be just one inherited traditional IRA. Consequently, two inherited traditional IRAs were set up for John and one inherited Roth IRA was set up for John.

John is age 39 in 2013 and he has elected to use the life distribution rule to calculate his RMDs with respect to his three inherited IRAs. December 31, 2013, is the RMD deadline for 2013. It is assumed the amounts as listed above were the FMV balances as of December 31, 2012. The divisor from the single life table for a person age 39 is 44.6.

RMD Calculation:

Inherited Traditional IRA #1  $\$225,000/44.6 = \$5044.84$

Inherited Traditional IRA #2  $\$30,000/44.6 = \$672.65$

Inherited Roth IRA  $\$35,200/44.6 = \$789.24$

The RMD rules allow only RMDs for like-kind IRAs to be aggregated for the special rule that allows a person to withdraw the combined amount from just one of the like-kind IRAs. The combined RMD amount is \$5,717.49 and he could withdraw it from inherited IRA #2 if he so chose, or from just inherited traditional IRA.

Since the inherited Roth IRA is not like-kind with respect to the two inherited traditional IRAs, John must withdraw the \$789.24 from the inherited Roth IRA. His failure to do so would mean he would owe the 50% under distribution tax.

If the rules was not written in this fashion, almost all beneficiaries in John's situation would never take a distribution from the inherited Roth IRA, but would take it from the inherited traditional IRA. Why? future earnings

on the inherited Roth IRA funds will never be taxed (once the 5-year rule has been met), but the earnings on the inherited traditional IRA will be taxable.

Since the distribution of the \$789.24 from the inherited Roth IRA is a qualified distribution, it is tax-free and he will owe no income tax on it. Reason code "Q" is to be inserted in box 7 on the Form 1099-R.

John will attain age  $70\frac{1}{2}$  in 2044. It is assumed he will have two of his own traditional IRAs. These two traditional IRAs will be like-kind, but his two personal traditional IRAs and his two inherited traditional IRAs will not be like-kind IRAs. So, he would have to take at least one distribution from his personal IRAs and one from the inherited IRAs with respect to his dad.

If he would later inherit a traditional IRA from his sister, this inherited IRA would not be like kind with

RMDs for a Son Beneficiary of Dad's 401(k), Traditional IRA and Roth IRA

those he inherited from his dad.