

Getting Married Results in Substantial Tax Benefits for the Surviving Spouse of an IRA Owner and His/Her Beneficiaries

In this article it is explained that two individuals who are not married should consider getting married if one or both has in IRA because the tax benefits which may be realized by a married beneficiary far exceed the tax benefits which may be realized by a non-spouse beneficiary.

A basic U.S. income tax law is - if income is earned during a given year then income tax will need to be paid for that year.

IRAs and other tax preferred plans are not subject to this basic tax rule. The income earned within a traditional IRA or a 401(k) plan is not subject to being taxed until it is withdrawn from the IRA or the 401(k) plan. Taxation of the income is tax-deferred. This means the account grows larger and faster than if taxes are paid annually.

Tax deferral of the income is one of the great benefits when a person inherits an IRA. He or she is not required to take a lump sum distribution and include the entire distribution in taxable income. Rather, the tax rules in general allow a non-spouse beneficiary to start withdrawing their RMDs over their life expectancy starting with the year after the year the IRA owner died. This means that although there has been deferral of previously earned income there will also be deferral of the income earned by the inherited IRA in future years. This deferral is limited.

In contrast, a married spouse beneficiary who elects to treat their deceased spouse's IRA as their own IRA or who rollovers the deceased spouse's IRA into their own IRA is not required to take a distribution until the year he or she attains age 70½. There will be many more years of tax deferral since distributions are not required to start the year following the year the IRA owner died and will be based on the life expectancy of the married spouse's beneficiary rather than the married spouse.

Federal tax law currently favors a married IRA beneficiary versus an unmarried IRA beneficiary when applying the required distribution rules.

Federal law does not grant such special tax treatment to a non-spouse beneficiary. Since 1978 a non-spouse beneficiary has not had the right to take a distribution from a decedent's IRA and then roll it over into their own personal IRA or another inherited IRA. A non-spouse beneficiary has no right to treated the decedent's IRA as his or her own or to make a rollover.

For discussion purposes we have two individuals, Rita and Philip. They have been together for 15 years. They have never married. Rita was born on May 2, 1960 and Philip was born on June 10, 1975. In 2016 she was age 56 and he was age 41. Rita learned in March of 2016 that she had cancer and her life expectancy was only 9-15 months. She died on January 1, 2017, when the fair market value of her IRA was \$80,000.

After her diagnosis, Rita considered if she should keep or change her IRA beneficiary designation. In 2005 she had designated Philip as her sole IRA primary beneficiary. She also wondered what difference it would make for Philip if they were married.

The following discussion shows that Philip and his beneficiaries will have the chance to benefit greatly if Philip is the surviving spouse beneficiary of her traditional IRA rather than if he was a non-spouse beneficiary.

What RMD distribution schedule will apply to Philip if he and Rita were not married prior to January 1, 2017?

See the chart on page 3. Philip as a non-spouse beneficiary will be required to commence his required distributions in 2018. For illustration purposes, a 4% earnings rate is assumed. Assuming that only the required distribution is withdrawn each year, the total to be distributed over the next 41.7 years will be \$218,132.15. Such distributions will either be made to Phil or to his successor beneficiaries.

Philip as a spouse beneficiary who elects to treat Rita's IRA as his own (or makes a rollover) will be subject to the standard RMD rules. He must take an RMD for the year he attains age 70 1/2 (2046). Tax deferral for an additional 29 years is a very valuable tax benefit.

The \$80,000 increases to \$249,492.12 over this 29 year period. The IRA is no longer an inherited IRA of a non-spouse beneficiary so he is not required to commence distributions the year after she dies. He may take normal distributions as he wishes.

See the charts on pages 3 - 5. Phil was able to treat Rita's IRA as his own because they were married. The combined RMD chart on page 4 shows the RMDs to be withdrawn by Phil while he is alive and then those to be paid to his beneficiary after his death in 2060.

Note that he commences distributions in 2046, the year he attains age 70½. The IRA has grown to be \$249,492.12. Phil takes his RMD for 2046-2060 when he dies at the age of 84. Because he was a spouse beneficiary who elected to treat Rita's IRA as his own, his beneficiary born on 7/7/2006 is able to take his RMDs over his life expectancy of 29.6 commencing in 2061 when he is age 55.

Note that the total payout to Phil and his beneficiary is \$591,877.46 whereas it is only \$218,132.31 if Phil would be a non-spouse beneficiary. The difference is substantial and it is due to the longer time period the funds stay within an IRA and the related tax deferral.

It is very clear that Phil and his beneficiary Anna will benefit greatly if Phil is a spouse beneficiary rather than a non-spouse beneficiary.

Name of Non-Spouse Beneficiary: Phil
 Beneficiary Date of Birth: 06/10/1976
 Life Distribution Rule
 Initial LE of Beneficiary 41.7

Original Accountholder Name: Rita
 Original Accountholder Date of Birth: 05/02/1961
 Original Accountholder Date Deceased: 07/01/2017

| Year | Account Beginning Balance | Earnings At 4% | Distribution Period | RMD | Account Ending Balance |
|-------------------------|------------------------------|-------------------|------------------------|--------------|---------------------------|
| Death 07/01/2017 | \$80,000.00 | \$3,200.00 | | \$0.00 | \$83,200.00 |
| 2018 | \$83,200.00 | \$3,328.00 | 41.7 | \$1,995.20 | \$84,532.80 |
| 2019 | \$84,532.80 | \$3,381.31 | 40.7 | \$2,076.97 | \$85,837.14 |
| 2020 | \$85,837.14 | \$3,433.49 | 39.7 | \$2,162.14 | \$87,108.48 |
| 2021 | \$87,108.48 | \$3,484.34 | 38.7 | \$2,250.87 | \$88,341.95 |
| 2022 | \$88,341.95 | \$3,533.68 | 37.7 | \$2,343.29 | \$89,532.34 |
| 2023 | \$89,532.34 | \$3,581.29 | 36.7 | \$2,439.57 | \$90,674.06 |
| 2024 | \$90,674.06 | \$3,626.96 | 35.7 | \$2,539.89 | \$91,761.13 |
| 2025 | \$91,761.13 | \$3,670.45 | 34.7 | \$2,644.41 | \$92,787.17 |
| 2026 | \$92,787.17 | \$3,711.49 | 33.7 | \$2,753.33 | \$93,745.32 |
| 2027 | \$93,745.32 | \$3,749.81 | 32.7 | \$2,866.83 | \$94,628.31 |
| 2028 | \$94,628.31 | \$3,785.13 | 31.7 | \$2,985.12 | \$95,428.32 |
| 2029 | \$95,428.32 | \$3,817.13 | 30.7 | \$3,108.41 | \$96,137.04 |
| 2030 | \$96,137.04 | \$3,845.48 | 29.7 | \$3,236.94 | \$96,745.58 |
| 2031 | \$96,745.58 | \$3,869.82 | 28.7 | \$3,370.93 | \$97,244.48 |
| 2032 | \$97,244.48 | \$3,889.78 | 27.7 | \$3,510.63 | \$97,623.63 |
| 2033 | \$97,623.63 | \$3,904.95 | 26.7 | \$3,656.32 | \$97,872.26 |
| 2034 | \$97,872.26 | \$3,914.89 | 25.7 | \$3,808.26 | \$97,978.89 |
| 2035 | \$97,978.89 | \$3,919.16 | 24.7 | \$3,966.76 | \$97,931.29 |
| 2036 | \$97,931.29 | \$3,917.25 | 23.7 | \$4,132.12 | \$97,716.42 |
| 2037 | \$97,716.42 | \$3,908.66 | 22.7 | \$4,304.69 | \$97,320.39 |
| 2038 | \$97,320.39 | \$3,892.82 | 21.7 | \$4,484.81 | \$96,728.39 |
| 2039 | \$96,728.39 | \$3,869.14 | 20.7 | \$4,672.87 | \$95,924.66 |
| 2040 | \$95,924.66 | \$3,836.99 | 19.7 | \$4,869.27 | \$94,892.37 |
| 2041 | \$94,892.37 | \$3,795.69 | 18.7 | \$5,074.46 | \$93,613.61 |
| 2042 | \$93,613.61 | \$3,744.54 | 17.7 | \$5,288.90 | \$92,069.25 |
| 2043 | \$92,069.25 | \$3,682.77 | 16.7 | \$5,513.13 | \$90,238.89 |
| 2044 | \$90,238.89 | \$3,609.56 | 15.7 | \$5,747.70 | \$88,100.74 |
| 2045 | \$88,100.74 | \$3,524.03 | 14.7 | \$5,993.25 | \$85,631.53 |
| 2046 | \$85,631.53 | \$3,425.26 | 13.7 | \$6,250.48 | \$82,806.31 |
| 2047 | \$82,806.31 | \$3,312.25 | 12.7 | \$6,520.18 | \$79,598.38 |
| 2048 | \$79,598.38 | \$3,183.94 | 11.7 | \$6,803.28 | \$75,979.04 |
| 2049 | \$75,979.04 | \$3,039.16 | 10.7 | \$7,100.84 | \$71,917.35 |
| 2050 | \$71,917.35 | \$2,876.69 | 09.7 | \$7,414.16 | \$67,379.89 |
| 2051 | \$67,379.89 | \$2,695.20 | 08.7 | \$7,744.81 | \$62,330.27 |
| 2052 | \$62,330.27 | \$2,493.21 | 07.7 | \$8,094.84 | \$56,728.64 |
| 2053 | \$56,728.64 | \$2,269.15 | 06.7 | \$8,466.96 | \$50,530.82 |
| 2054 | \$50,530.82 | \$2,021.23 | 05.7 | \$8,865.06 | \$43,687.00 |
| 2055 | \$43,687.00 | \$1,747.48 | 04.7 | \$9,295.11 | \$36,139.37 |
| 2056 | \$36,139.37 | \$1,445.57 | 03.7 | \$9,767.40 | \$27,817.55 |
| 2057 | \$27,817.55 | \$1,112.70 | 02.7 | \$10,302.80 | \$18,627.46 |
| 2058 | \$18,627.46 | \$745.10 | 01.7 | \$10,957.33 | \$8,415.23 |
| 2059 | \$8,415.23 | \$336.61 | 1.0 | \$8,751.84 | \$0.00 |
| Totals | \$80,000.00 | \$138,132.15 | | \$218,132.15 | \$0.00 |

Combined RMD Chart for Phil and His Beneficiary

Phil's Date of Birth: 6/10/1976

Phil's Date of Death: 10/11/2060

Phil's Beneficiary's Date of Birth: 7/05/2006

Initial RMD Divisor for Phil's Beneficiary: 29.6

| Year | Account Beginning Balance | Earnings At 4% | Distribution Period | RMD | Account Ending Balance |
|---------------|------------------------------|-------------------|------------------------|--------------|---------------------------|
| 2046 | \$249,492.12 | \$9,979.68 | 27.4 | \$9,469.77 | \$250,002.03 |
| 2047 | \$250,002.03 | \$10,000.08 | 26.5 | \$9,811.40 | \$250,190.71 |
| 2048 | \$250,190.71 | \$10,007.63 | 25.6 | \$10,164.00 | \$250,034.34 |
| 2049 | \$250,034.34 | \$10,001.37 | 24.7 | \$10,527.76 | \$249,507.95 |
| 2050 | \$249,507.95 | \$9,980.32 | 23.8 | \$10,902.87 | \$248,585.40 |
| 2051 | \$248,585.40 | \$9,943.42 | 22.9 | \$11,289.47 | \$247,239.35 |
| 2052 | \$247,239.35 | \$9,889.57 | 22.0 | \$11,687.68 | \$245,441.25 |
| 2053 | \$245,441.25 | \$9,817.65 | 21.2 | \$12,040.51 | \$243,218.38 |
| 2054 | \$243,218.38 | \$9,728.74 | 20.3 | \$12,460.45 | \$240,486.67 |
| 2055 | \$240,486.67 | \$9,619.47 | 19.5 | \$12,825.96 | \$237,280.18 |
| 2056 | \$237,280.18 | \$9,491.21 | 18.7 | \$13,196.33 | \$233,575.06 |
| 2057 | \$233,575.06 | \$9,343.00 | 17.9 | \$13,570.84 | \$229,347.22 |
| 2058 | \$229,347.22 | \$9,173.89 | 17.1 | \$13,948.60 | \$224,572.50 |
| 2059 | \$224,572.50 | \$8,982.90 | 16.3 | \$14,328.55 | \$219,226.85 |
| x2060 | \$219,226.85 | \$8,769.07 | 15.5 | \$14,709.41 | \$213,286.51 |
| x2061* | \$213,286.51 | \$8,531.46 | 29.6 | \$7,493.85 | \$214,324.12 |
| 2062 | \$214,324.12 | \$8,572.96 | 28.6 | \$7,793.60 | \$215,103.48 |
| 2063 | \$215,103.48 | \$8,604.14 | 27.6 | \$8,105.35 | \$215,602.27 |
| 2064 | \$215,602.27 | \$8,624.09 | 26.6 | \$8,429.56 | \$215,796.80 |
| 2065 | \$215,796.80 | \$8,631.87 | 25.6 | \$8,766.75 | \$215,661.93 |
| 2066 | \$215,661.93 | \$8,626.48 | 24.6 | \$9,117.41 | \$215,170.99 |
| 2067 | \$215,170.99 | \$8,606.84 | 23.6 | \$9,482.11 | \$214,295.72 |
| 2068 | \$214,295.72 | \$8,571.83 | 22.6 | \$9,861.40 | \$213,006.15 |
| 2069 | \$213,006.15 | \$8,520.25 | 21.6 | \$10,255.85 | \$211,270.55 |
| 2070 | \$211,270.55 | \$8,450.82 | 20.6 | \$10,666.09 | \$209,055.28 |
| 2071 | \$209,055.28 | \$8,362.21 | 19.6 | \$11,092.73 | \$206,324.76 |
| 2072 | \$206,324.76 | \$8,252.99 | 18.6 | \$11,536.44 | \$203,041.32 |
| 2073 | \$203,041.32 | \$8,121.65 | 17.6 | \$11,997.90 | \$199,165.07 |
| 2074 | \$199,165.07 | \$7,966.60 | 16.6 | \$12,477.81 | \$194,653.86 |
| 2075 | \$194,653.86 | \$7,786.15 | 15.6 | \$12,976.92 | \$189,463.09 |
| 2076 | \$189,463.09 | \$7,578.52 | 14.6 | \$13,496.00 | \$183,545.62 |
| 2077 | \$183,545.62 | \$7,341.82 | 13.6 | \$14,035.84 | \$176,851.60 |
| 2078 | \$176,851.60 | \$7,074.06 | 12.6 | \$14,597.27 | \$169,328.39 |
| 2079 | \$169,328.39 | \$6,773.14 | 11.6 | \$15,181.17 | \$160,920.36 |
| 2080 | \$160,920.36 | \$6,436.81 | 10.6 | \$15,788.41 | \$151,568.76 |
| 2081 | \$151,568.76 | \$6,062.75 | 9.6 | \$16,419.95 | \$141,211.56 |
| 2082 | \$141,211.56 | \$5,648.46 | 8.6 | \$17,076.75 | \$129,783.28 |
| 2083 | \$129,783.28 | \$5,191.33 | 7.6 | \$17,759.82 | \$117,214.79 |
| 2084 | \$117,214.79 | \$4,688.59 | 6.6 | \$18,470.21 | \$103,433.17 |
| 2085 | \$103,433.17 | \$4,137.33 | 5.6 | \$19,209.02 | \$88,361.48 |
| 2086 | \$88,361.48 | \$3,534.46 | 4.6 | \$19,977.38 | \$71,918.56 |
| 2087 | \$71,918.56 | \$2,876.74 | 3.6 | \$20,776.47 | \$54,018.83 |
| 2088 | \$54,018.83 | \$2,160.75 | 2.6 | \$21,607.53 | \$34,572.05 |
| 2089 | \$34,572.05 | \$1,382.88 | 1.6 | \$22,471.83 | \$13,483.10 |
| 2090 | \$13,483.10 | \$539.32 | 0.10 | \$14,022.42 | \$0.00 |
| Totals | \$249,492.12 | \$342,385.34 | | \$591,877.46 | \$0.00 |

ELECTS AS OWN and GROWTH PHASE

Phil's Date of Birth: June 7, 1976

Original Accountholder Name: Rita

Original Accountholder Date of Birth: 05/02/1961

Original Accountholder Date Deceased: 07/01/2017

| Year | Balance | Interest | Year End Balance |
|--------------|--------------------|---------------------|-------------------------|
| 2017 | \$80,000.00 | \$3,200.00 | \$83,200.00 |
| 2018 | \$83,200.00 | \$3,328.00 | \$86,528.00 |
| 2019 | \$86,528.00 | \$3,461.12 | \$89,989.12 |
| 2020 | \$89,989.12 | \$3,599.56 | \$93,588.68 |
| 2021 | \$93,588.68 | \$3,743.55 | \$97,332.23 |
| 2022 | \$97,332.23 | \$3,893.29 | \$101,225.52 |
| 2023 | \$101,225.52 | \$4,049.02 | \$105,274.54 |
| 2024 | \$105,274.54 | \$4,210.98 | \$109,485.52 |
| 2025 | \$109,485.52 | \$4,379.42 | \$113,864.94 |
| 2026 | \$113,864.94 | \$4,554.60 | \$118,419.54 |
| 2027 | \$118,419.54 | \$4,736.78 | \$123,156.32 |
| 2028 | \$123,156.32 | \$4,926.25 | \$128,082.58 |
| 2029 | \$128,082.58 | \$5,123.30 | \$133,205.88 |
| 2030 | \$133,205.88 | \$5,328.24 | \$138,534.12 |
| 2031 | \$138,534.12 | \$5,541.36 | \$144,075.48 |
| 2032 | \$144,075.48 | \$5,763.02 | \$149,838.50 |
| 2033 | \$149,838.50 | \$5,993.54 | \$155,832.04 |
| 2034 | \$155,832.04 | \$6,233.28 | \$162,065.32 |
| 2035 | \$162,065.32 | \$6,482.61 | \$168,547.93 |
| 2036 | \$168,547.93 | \$6,741.92 | \$175,289.85 |
| 2037 | \$175,289.85 | \$7,011.59 | \$182,301.45 |
| 2038 | \$182,301.45 | \$7,292.06 | \$189,593.50 |
| 2039 | \$189,593.50 | \$7,583.74 | \$197,177.24 |
| 2040 | \$197,177.24 | \$7,887.09 | \$205,064.33 |
| 2041 | \$205,064.33 | \$8,202.57 | \$213,266.91 |
| 2042 | \$213,266.91 | \$8,530.88 | \$221,797.58 |
| 2043 | \$221,797.58 | \$8,871.90 | \$230,669.49 |
| 2044 | \$230,669.49 | \$9,226.78 | \$239,896.27 |
| 2045 | \$239,896.27 | \$9,595.85 | \$249,492.12 |
| Total | \$80,000.00 | \$169,492.12 | \$249,492.12 |