LESSON · TAX & WITHDRAWALS

Inherited IRAs: The Rules Change Once You're Not the Original Owner

Inheriting an IRA comes with its own rulebook — a 10-year deadline, sometimes annual required withdrawals along the way, and very different urgency depending on whether the account is Traditional or Roth.

Read time: 9 minutes **Level:** Intermediate **Includes:** Knowledge check

The rules for an IRA you inherit are almost nothing like the rules for the IRA you built yourself. Since the SECURE Act took effect in 2020, most people who inherit an IRA are on a strict 10-year clock to empty the account — and depending on who died and when, there may also be *required* withdrawals in every one of those 10 years, not just a deadline at the end. Getting this wrong can mean a much bigger tax bill than necessary, or an IRS penalty for missed withdrawals.

The 10-year rule, and who's exempt from it

Since 2020, most non-spouse beneficiaries must withdraw the entire inherited IRA balance by December 31 of the 10th year after the original owner's death. There's no requirement to take anything out in years 1–9 — *unless* the person who died had already started their own RMDs, in which case the IRS now requires annual withdrawals in years 1–9 as well, with the full balance still due by the end of year 10.

A small group of "eligible designated beneficiaries" get to skip the 10-year rule entirely and stretch withdrawals over their own life expectancy instead:

- **A surviving spouse** — who also has the option to roll the account into their own IRA (see below).
- **A minor child of the original owner** — but only until they reach the age of majority, at which point the 10-year clock starts.
- **Someone disabled or chronically ill**, as defined by the IRS.
- **Someone not more than 10 years younger than the original owner** — commonly a sibling or same-generation beneficiary.

> **Worked example**
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> Someone inherits a $400,000 Traditional IRA from a parent who was 78 and already taking RMDs. Because the parent had started RMDs, the beneficiary owes an RMD in each of years 1–9 (calculated off their own life expectancy under IRS tables), *and* the entire remaining balance by December 31 of year 10. If instead the parent had been 68 and hadn't started RMDs yet, the beneficiary would owe nothing in years 1–9 — just the full balance by the end of year 10, giving far more control over which years to recognize the income.

Traditional vs. Roth: very different urgency

For an inherited **Traditional** IRA, every dollar withdrawn is taxable income in the year it's taken — so the 10-year window becomes a tax-bracket-management exercise. Withdrawing it all at once in year 10 (or being forced to, because nothing was taken earlier) can push a single year's income into a much higher bracket than spreading it across several years would have.

For an inherited **Roth** IRA, qualified withdrawals are tax-free, so the incentive flips: there's little reason to withdraw anything before year 10, since the money keeps growing tax-free in the meantime and there's no tax cost to waiting. The 10-year rule still applies to when the account must be emptied — it just doesn't create the same tax-timing pressure along the way.

A tax-bracket-smoothing strategy for inherited Traditional IRAs

Rather than either ignoring the account for 9 years and taking a massive final distribution, or reflexively withdrawing exactly one-tenth every year, it's often more efficient to look at the beneficiary's own income each year and pull more from the inherited IRA in years when their other income is unusually low — a gap year between jobs, an early-retirement year before other income starts, and so on — and less in high-income years.

Spousal beneficiaries have a real choice to make

A surviving spouse can either remain a beneficiary (with more flexible early-withdrawal options and, for a much-younger spouse, potentially smaller required withdrawals) or roll the inherited IRA into their own IRA outright. Rolling it into their own name subjects it to their own RMD age and the standard 10% early-withdrawal penalty before 59½ — which can be the wrong move for a spouse who needs to access the money before that age penalty-free as a beneficiary.

What happens if a required withdrawal is missed

The penalty for missing a required distribution from an inherited IRA is steep on paper — the IRS can assess 25% of the amount that should have been withdrawn (reduced to 10% if corrected promptly) — so it's worth confirming, ideally with a tax professional, whether the person who died had already started RMDs before assuming years 1–9 are truly optional.

Before deciding how to handle an inherited IRA

- [ ] Confirm whether the original owner had already started RMDs — this determines whether years 1–9 carry a required withdrawal.
- [ ] Identify whether the beneficiary qualifies as an "eligible designated beneficiary" (spouse, minor child, disabled/chronically ill, or not more than 10 years younger).
- [ ] For a spouse: compare remaining a beneficiary vs. rolling the account into their own IRA, especially if withdrawals may be needed before age 59½.
- [ ] For an inherited Traditional IRA, map out a 10-year withdrawal plan against expected income in each of those years, rather than defaulting to one lump sum.
- [ ] For an inherited Roth IRA, confirm there's no urgency to withdraw early beyond the year-10 deadline.

KNOWLEDGE CHECK

Test what you just learned

Answer four quick questions to test what you just learned.

1. Under current rules, by when must most non-spouse beneficiaries empty an inherited IRA?

> A. Immediately, in a single lump sum
>
> B. By December 31 of the 10th year after the original owner's death
>
> C. There is no deadline as long as some money remains

2. When are annual withdrawals required during that 10-year window, not just a deadline at the end?

> A. Never — years 1 through 9 are always optional
>
> B. When the original owner had already started taking their own RMDs before they died
>
> C. Only if the beneficiary is under age 30

3. Which of these beneficiaries is NOT automatically exempt from the 10-year rule?

> A. A surviving spouse
>
> B. A minor child of the original owner (until they reach majority)
>
> C. An adult child more than 10 years younger than the original owner

4. Why is there less urgency to withdraw early from an inherited Roth IRA?

> A. Roth withdrawals are taxed at a lower rate automatically
>
> B. Qualified Roth withdrawals are tax-free, so there's no tax-timing benefit to withdrawing before the 10-year deadline
>
> C. Roth IRAs aren't subject to the 10-year rule at all

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