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If you recently inherited a retirement account from someone other than your spouse you may be facing tax rule changes.

It used to be that most non-spouse retirement account beneficiaries were able to 'stretch' the number of years over which they were required to distribute the account.

With the CARES Act of 2019 this was, for most non-spouse beneficiaries, changed to a ten-year period following the year of death by the end of which the entire account had to be distributed.

If, for example, you inherited an IRA from someone who died in 2020 it would typically be ok not to draw any money for several years but just make sure you distribute the entire account by the end of 2030.

This flexibility could be helpful for those who maybe plan to work a few more years. After retirement the inheritor's income would drop and distributions from the inherited IRA could be taxed at a lower rate.

According to the Wall Street Journal the IRS has proposed changes to this rule so that, during this ten-year period, these inheritors would have to take an annual amount and still distribute the entire account by the end of the period.

On the positive side, the proposed rule change would provide a waiver in the year of death when the inheritor could be responsible for distributing the deceased's owner's Required Minimum Distribution. Going forward, this deadline would change to the time of the inheritor's tax filing deadline including tax extensions.

If paid by this deadline the 50% tax penalty would be waved.

Note that the rule changes would not apply to Inherited Roth IRAs.

The IRS is accepting comments on the proposed rule changes through May 25 and will issue a final guidance later.

So, if you recently inherited a retirement account you should pay attention to how this develops. I suggest not acting now as the rule change may differ from the current proposal.

I also think it is a good idea to ask your tax advisor.

Good luck.

Jorgen Vik, CFP®  
CERTIFIED FINANCIAL PLANNER™  
Partner  
SKV Group, LLC

1405 Rolkin Ct., Suite 202  
Charlottesville, VA 22911  
toll free 844.391.3610  
tel 434.328.8040  
fax 434.234.3789  
www.skvgrp.net



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1405 Rolkin Ct., Suite 202  
Charlottesville, VA 22911  
toll free 844.391.3610  
tel 434.328.8040  
fax 434.234.3789  
[www.skvgrp.net](http://www.skvgrp.net)