Who is exempt from the 10-year rule when inheriting an IRA?

Q.: I understand a spouse is exempted from the 10-year rule when they inherit an IRA. Who else gets a break from that?

A.: Tim, yes, spouses are exempt from the new 10-year rule created in the SECURE Act. Most other beneficiaries are subject to the 10-year rule when inheriting IRAs, Roth IRAs and retirement accounts such as 401(k)s unless they are an "eligible designated beneficiary". The 10-year rule only says that the inherited retirement account must be completely distributed by the end of the tenth year after the year of death.

No lifetime stretch is available anymore and the 10-year rule will apply for account owner deaths occurring in 2020 or later, regardless of how the year one through nine issue is resolved.

The exception to the 10-year rule is for "eligible designated beneficiaries (EDB)." In addition to spouses, beneficiaries that qualify as an EDB can still utilize the "stretch" option for taking distributions. The stretch option allows a beneficiary to spread distributions over the beneficiary's remaining life expectancy subject only to an annual Required Minimum Distribution (RMD).

Eligible designated beneficiaries are:

Beneficiaries of persons deceased before 2020. Such beneficiaries are subject to the prior RMD rules thus those that were utilizing the "stretch" option may continue to do so using the same calculation method they have been using.

Minor child who has not reached the age of majority (typically 18). Upon reaching majority, the 10-year rule applies and the account must be empty by the end of the tenth tax year after the year the beneficiary reaches the age of majority.

Disabled beneficiary as described in § 72(m)(7)). Upon such beneficiary's death, the 10-year payout rule applies and the account must be empty by the end of the tenth tax year after the year the beneficiary dies.

Chronically ill individual as described in § 7702B(c)(2)). Upon such beneficiary's death the 10-year payout rule applies and the account must be empty by the end of the tenth tax year after the year the beneficiary dies.

A beneficiary less than 10 years younger than the deceased. This is often the case when a sibling inherits. Upon such beneficiary's death the 10-year payout rule applies and the account must be empty by the end of the tenth tax year after the year the beneficiary dies.

The surviving spouse of a deceased IRA owner retains the use of all the options in the code that existed before the SECURE Act. If the surviving spouse opts to use the life expectancy payout, upon the inheriting spouse's death the exception ceases to apply and the account must be empty by the end of the tenth tax year after the year the beneficiary dies.

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