

# CLIENT ALERTS

---

## Important Distribution Rule Changes Under the SECURE Act

1.10.2020

Under the SECURE Act, which was signed into law in December 2019, important changes have been made to the required minimum distributions rules applicable to retirement accounts inherited from the original owner of the retirement account (the “account owner”). Under the new rules, which apply to accounts held by account owners who die after December 31, 2019, the option to take annual distributions from the inherited retirement account (an “inherited IRA”) over the beneficiary’s life expectancy has been eliminated for certain types of beneficiaries. For the spouse of the account owner and certain other types of individual beneficiaries, the required minimum distribution rules in effect prior to the SECURE Act still apply.

For other beneficiaries of inherited IRAs, no annual distributions are required during the first ten years following the death of the account owner. Rather, all of the inherited IRA must be distributed by the end of the tenth calendar year following the year of the account owner’s death. This rule applies to traditional inherited IRAs and Roth inherited IRAs.

A beneficiary might elect to make one or more withdrawals from the traditional inherited IRA prior to the final year in order to spread the amount of taxable income over multiple years. If no distributions are taken out during the initial 9-year period, then all of the income taxes related to the traditional inherited IRA would be incurred in a single year (the 10<sup>th</sup> year). This outcome would likely result in the payment of higher income taxes.

If a trust is the named beneficiary of an inherited IRA (for an inherited IRA established after December 31, 2019), the trustee may not be required to take annual required minimum distributions except for the distribution in full in the 10<sup>th</sup> year. Further, the trustee may not be able to distribute to the trust beneficiary all of the retirement account distributions actually taken under the new law. This could also result in the payment of income taxes at the higher tax rates applicable to trusts.

### Related People

Robert P. Perry  
Shareholder

### Related Services

Estate & Succession Planning

## CLIENT ALERTS

---

Certain trusts named as the beneficiaries of retirement accounts (primary or contingent) may have been designed with the expectation that distributions would be made annually over the life expectancy of the beneficiary. Given the change in how distributions may be made from an inherited IRA, a review of the terms of any trust named as a beneficiary may be appropriate. Further, individuals holding retirement accounts may wish to evaluate how such assets should be distributed to their beneficiaries.

Many of the benefits attributed to having a trust as the named beneficiary of an inherited IRA still apply. However, given the change in the time within which the full distribution of the inherited IRA must be made, account owners should review with their advisors how the change in law affects the account owner's current estate planning and the designation of beneficiaries applicable to retirement accounts.

**Amy L. Glenn**

248.258.4497

[glenn@butzel.com](mailto:glenn@butzel.com)

**Robert Perry**

248.258.7850

[perry@butzel.com](mailto:perry@butzel.com)