



# Understanding your choices when you inherit an IRA

**The information in this fact sheet is based on draft regulatory guidance that is pending final approval. This information applies only to Individual Retirement Accounts inherited after the death of an owner occurring on 1/1/2020 or later.**

When you inherit an Individual Retirement Account (IRA), you'll need to make decisions about when and how to distribute the account's assets. It's important to be mindful of key deadlines, as they apply to your specific situation. Keep in mind that your decisions may affect the taxes you'll owe on the assets left to you, so it's important to understand your choices. While you may not be prepared to make long-term decisions immediately, there are steps you'll need to take in the first few months of learning about the inheritance in order to help preserve the tax advantages of the assets, as well as meet any legally required deadlines. This sheet is intended to provide educational information that can help you prepare before speaking to your tax or other advisors about inherited IRA assets.

## What you need to know

Distribution rules differ based on the date of death, the category of the beneficiary (see the charts on the following pages), and whether the original account owner died before or after their Required Beginning Date (RBD) for Required Minimum Distributions (RMD). Some entities, such as see-through trusts, will be subject to different rules.

Lump-sum distribution is an option for all beneficiaries. Assets are available for immediate cash flow needs if you choose this

option, however, assets may be subject to taxes when they are withdrawn. In some instances, beneficiaries may be subject to the 10-year rule. Under the 10-year rule, a beneficiary would be required to take RMDs and distribute the entire account by the end of the 10th year following the decedent's date of death. The rules are complex, and distributions have tax implications. You must consult with appropriate professionals such as your tax or legal counsel before making any decisions.

## Special rules for Spouses

Spouses will have an additional option to roll the Inherited IRA to an IRA in their own name ("Spousal Rollover"). By doing this:

- You'll keep the tax-deferred status of the assets and be able to name your own beneficiaries.
- Distributions will be based on your own life expectancy (using the IRS tables) and must begin April 1 of the year following the year you reach 73, under current law.<sup>2</sup>
- If you are younger than your spouse, this may be a good option because you can delay taking RMDs until April 1 of the year following the year you reach 73, under current law.<sup>2</sup>
- This applies regardless of whether the original IRA account owner died before or after their RBD.

**Please note:** The spouse must make the election by the **later** of (1) the end of the calendar year in which they reach age 73, under current law,<sup>2</sup> or (2) the end of the calendar year following the calendar year of the IRA owner's death. If the surviving spouse wishes to treat the IRA as their own after that deadline, the surviving spouse will need to calculate and withdraw "hypothetical RMDs" to account for the time period that passed since the death. Please consult your personal tax advisor for assistance with the spousal rollover rules.

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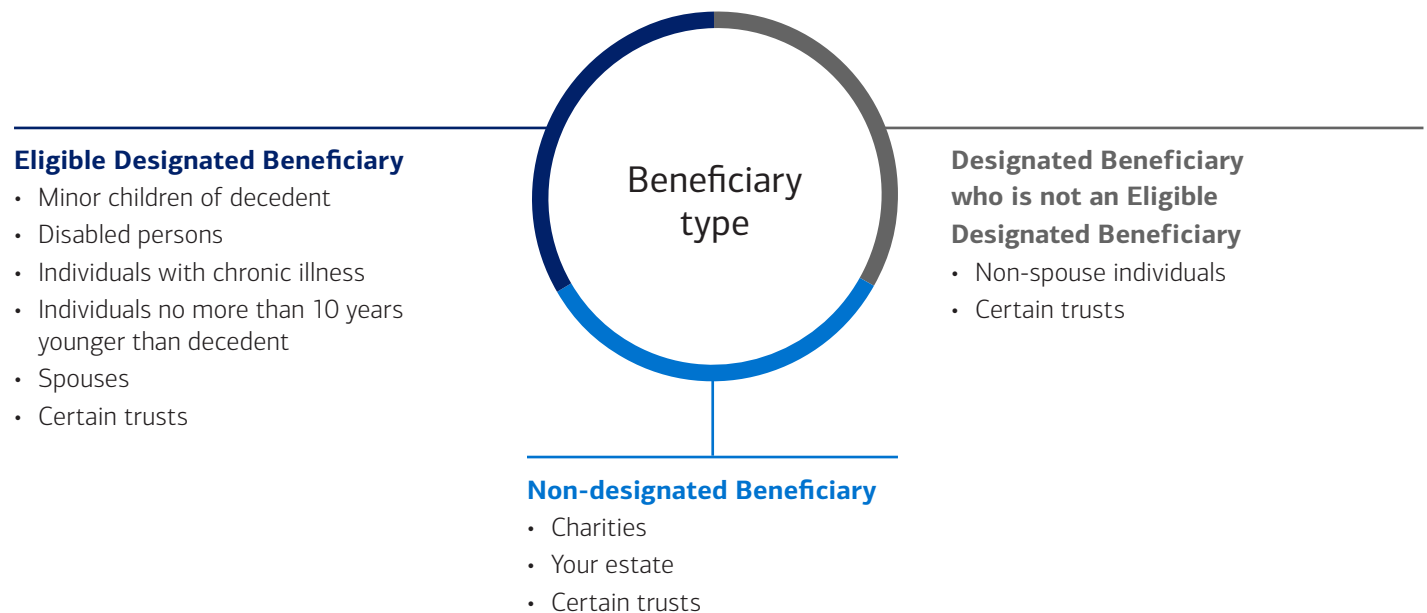
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There are three different types of beneficiaries:

- Eligible Designated Beneficiaries (EDBs)
- Designated Beneficiaries (DBs)
- Non-designated Beneficiaries (NBDs)

There are differences in requirements for each type of beneficiary. An EDB is a surviving spouse, a minor child of the decedent, a disabled or chronically ill individual, or an individual who is less than 10 years younger than the original account owner. DBs include non-spouse individuals, individuals more than 10 years younger than the original IRA account owner and certain trusts. Additionally, the rules for multiple beneficiaries are complex and you should work with your tax advisor to determine your distribution strategy.

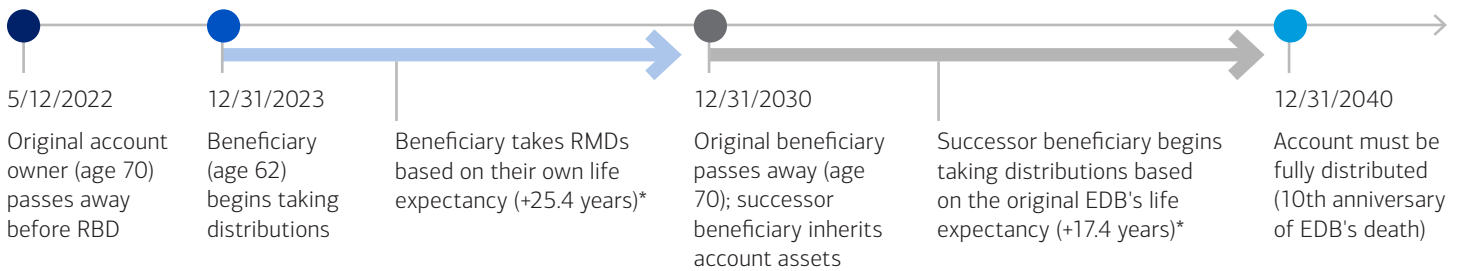
The graphic below describes the categories of beneficiaries, and the information that follows gives details on considerations for each beneficiary type.



The content on the following pages represents the required **minimum** distribution rules the beneficiary must follow; however, they always have the opportunity to take more. You should consult with a tax advisor prior to making any decisions as distributions have tax consequences.

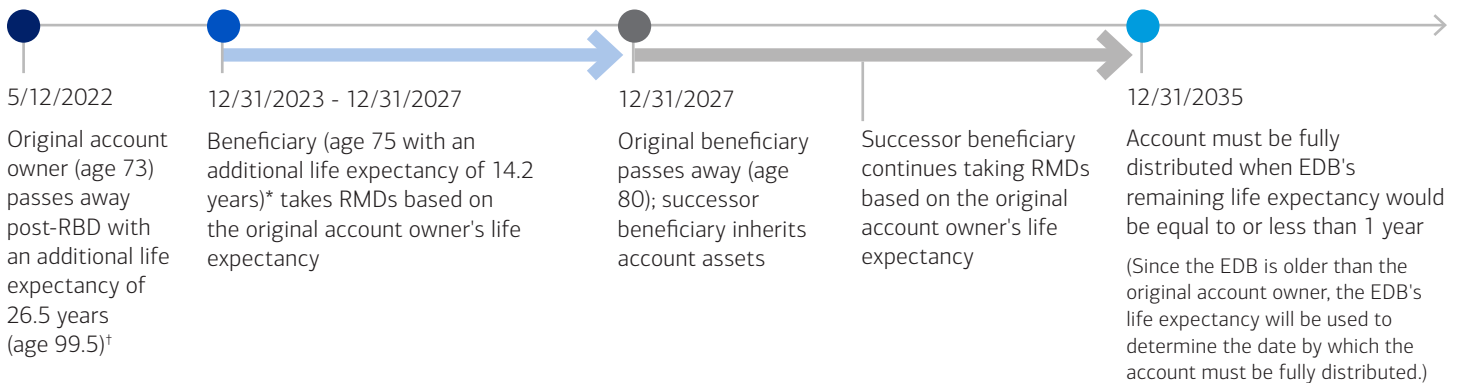
## Beneficiary scenario: EDB who is not the original account owner's minor child

### Timing of original account owner's death: **Before RBD**



- 10-year rule, no distributions required until the end of the year containing the 10th anniversary of the original account owner's death.
- or**
- Stretch over the original EDB's life or life expectancy, starting by December 31 of the year following the year the original account owner died and continuing over the original EDB's remaining life expectancy even after their death.
  - However, all amounts must be fully distributed by December 31 of the year containing the 10th anniversary of the original EDB's death.

### Timing of original account owner's death: **On or after RBD**



- Minimum distributions must continue over the **longer** of (1) the original account owner's remaining life expectancy or (2) the original EDB's remaining life expectancy and must continue over that life expectancy even after the EDB's death.
- However, all amounts must be fully distributed by the **earlier** of (1) December 31 of the year containing the 10th anniversary of the original EDB's death or (2) in the case where the EDB is older than the original account owner, the end of the year in which the EDB's life expectancy would be equal to or less than 1 (if their own life expectancy had been used to determine the original distribution period).

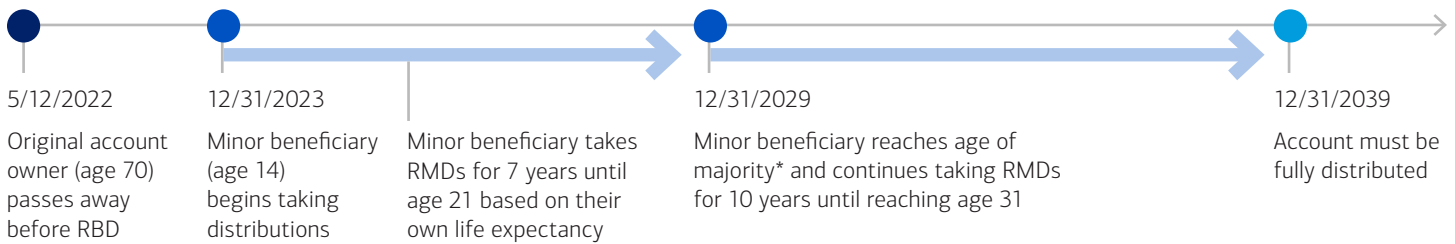
**All beneficiaries, trustees and executors should consult their tax advisor before making any distribution elections.**

\* Calculated using the [Single Life Table for Beneficiaries](#).

† Calculated using the [Uniform Life Table for IRA owners](#).

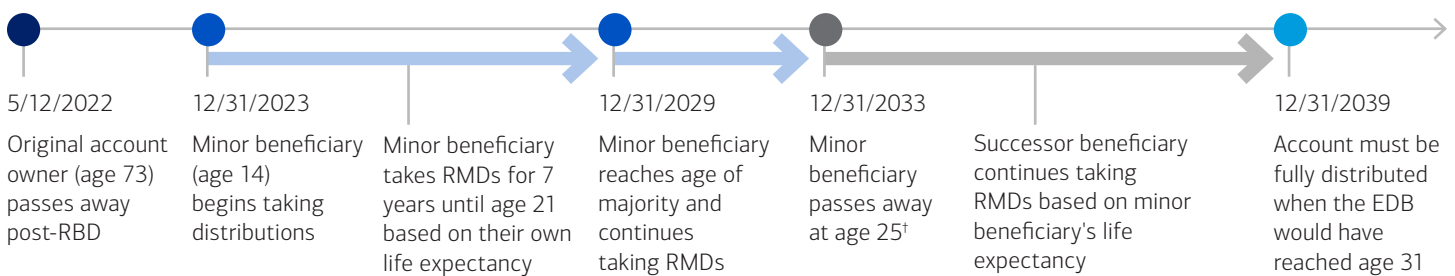
## Beneficiary scenario: EDB who is the original account owner's minor child

### Timing of original account owner's death: **Before RBD**



- 10-year rule, no distributions required until the end of the year containing the 10th anniversary of the original account owner's death.
- or**
- Stretch over the EDB's life or life expectancy, starting by December 31 of the year following the year of the original account owner's death and continuing over the original EDB's remaining life expectancy after their death.
  - However, all amounts must be fully distributed by the **earlier** of (1) the end of the year the EDB attains age 31 or (2) the end of the year containing the 10th anniversary of the original EDB's death.

### Timing of original account owner's death: **On or after RBD**



- Minimum distributions must continue over the **longer** of (1) the original account owner's remaining life expectancy or (2) the EDB's remaining life expectancy and they must continue over that remaining life expectancy even after the original EDB's death.
- However, all amounts must be fully distributed by the **earlier** of (1) December 31 of the year the EDB attains age 31 or (2) December 31 of the year containing the 10th anniversary of the original EDB's death.

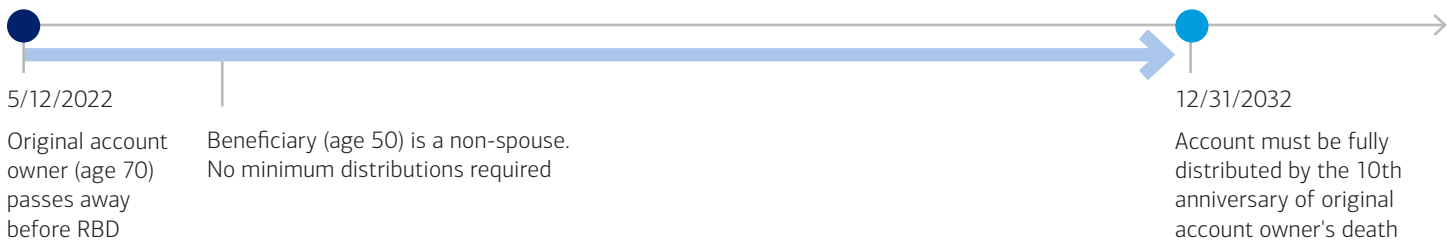
**All beneficiaries, trustees and executors should consult their tax advisor before making any distribution elections.**

\* Age 21 is the age that should be considered for age of majority regardless of state law.

<sup>†</sup> Calculated using the [Single Life Table for Beneficiaries](#).

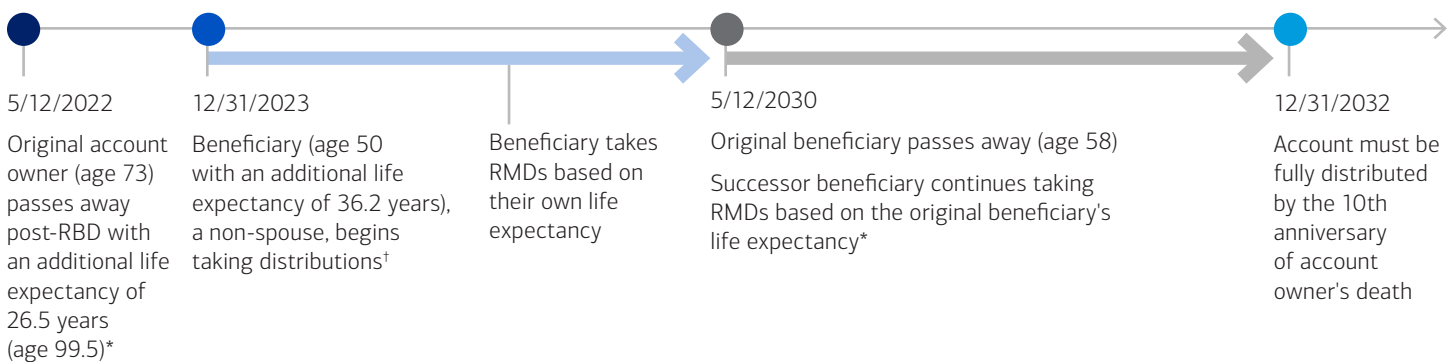
## Beneficiary scenario: Designated beneficiary who is not an EDB

### Timing of original account owner's death: **Before RBD**



- No RMDs required until the end of the year containing the 10th anniversary of the original account owner's death.
- However, the account must be fully depleted by December 31 of the 10th year following the original account owner's death.

### Timing of original account owner's death: **On or after RBD**



- Minimum distributions must continue over the **longer** of (1) the original account owner's remaining life expectancy or (2) the beneficiary's life expectancy and they must continue over that remaining life expectancy even after the beneficiary's death.
- However, all amounts must be fully distributed by December 31 of the year containing the 10th anniversary of the original account owner's death.

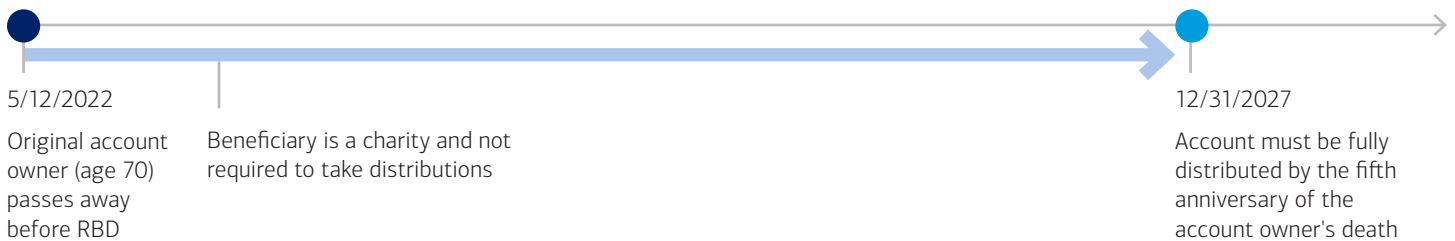
**All beneficiaries, trustees and executors should consult their tax advisor before making any distribution elections.**

\* Calculated using the [Uniform Life Table for IRA owners](#).

<sup>†</sup> Calculated using the [Single Life Table for Beneficiaries](#).

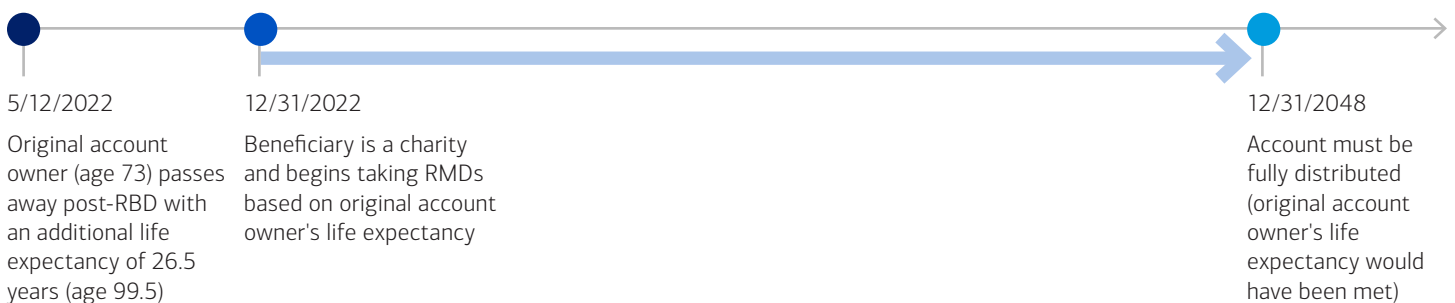
## Beneficiary scenario: Non-designated Beneficiary (e.g., trust, charity, estate)

### Timing of original account owner's death: **Before RBD**



- No RMDs are required until December 31 of the year containing the fifth anniversary of the original account owner's death.
- However, the account must be fully depleted by December 31 of the fifth year following the beneficiary's death.

### Timing of original account owner's death: **On or after RBD**



- Minimum distributions must continue over the decedent's remaining life expectancy with no other cap on the distribution period.

### **All beneficiaries, trustees and executors should consult their tax advisor before making any distribution elections.**

#### Merrill advisors are available to help



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<sup>1</sup> Effective 1/1/2023, the required beginning date is April 1 of the year after the account owner turns age 73. The account owner is required to take an RMD by December 31 each year after that. If the account owner delays their first RMD until April 1 in the year after turning 73, they will be required to take two RMDs in that year. They may be subject to additional taxes if RMDs are missed. Clients should see their tax advisor regarding their specific situation.

<sup>2</sup> The Required Beginning Date (RBD) is April 1 of the year following the year the account owner would have turned 73, or the applicable RMD age, and would have been required to begin taking required minimum distributions (RMDs). From 1/1/2020-12/31/2022 the applicable RMD age was 72. From 1/1/2023-12/31/2032 the applicable RMD age is 73. Starting 1/1/2033 the applicable RMD age is scheduled to change to 75.

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