THE SPOUSAL DISCLAIMER: A POTENTIAL NEW WAY TO “STRETCH” AN IRA FOR 20 YEARS

As discussed in previous videos, the new SECURE Act eliminates the “stretch” provisions for people who inherit an IRA. Previously, a recipient of an inherited IRA had the rest of their life to withdraw the tax-deferred funds. This was usually a tax benefit to those beneficiaries as they would only pay taxes on the funds they withdrew over the course of what could have been decades. That benefit is now a potential tax time bomb as you have to pay taxes on the IRA funds as you withdraw them over the 10-year max. If you don’t plan appropriately, that 10th year could result in a tax surprise.

Since there is an exclusion of the 10-year limit for the surviving spouse, they can own the IRA until they pass. This allows for an interesting strategy that could still “stretch” the IRA, and that is to have the surviving spouse “disclaim” a portion of the IRA. Disclaiming means the surviving spouse says “I don’t want that portion of the money. Have it go to the contingent beneficiaries.”

Presumably the contingent beneficiaries are the children and they would then start that 10-year clock the new law requires.

In a nutshell, the surviving spouse’s portion of the IRA remains with the surviving spouse until they pass and then what is left will go to the children and will start a new 10-year clock on that money at that time.

This strategy would only apply, of course, to spouses who don’t need the money they disclaim.

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