

TAX TIPS

WHY ARE SOME BEQUESTS TAXABLE?

Generally speaking, inheritances are tax free for income-tax purposes. Any taxes due on the estate are paid by the estate, not the beneficiary/heir. But there is a loophole: that's income in respect of a decedent (IRD), income earned by the individual before death that's payable after death.

For instance, wages, partnership income, annuity payments and traditional IRAs are common examples of an IRD.

On an IRA, what's taxable are the distributions. As long as there is a direct trustee-to-trustee transfer of an inherited IRA to another inherited IRA, no taxes are due right away, until such time as the IRA funds are distributed to the taxpayer. There are no stipulations that allow a 60-day rollover from one account to another, as there are for other IRAs. The rules for surviving-spouse beneficiaries are more lenient.

Some loopholes help; some are against you. We help you through tax thickets at
