

Calculating an IRA Deduction

...in 5 Easy Steps

What is an IRD (Income in Respect of a Decedent) deduction? An IRD deduction is a way of offsetting the impact of double taxation (federal estate tax and income tax) on certain inherited assets. It is an income tax deduction for the beneficiary (miscellaneous itemized deduction, not subject to limitations).

When should you look for an IRD deduction? When an individual receives a 1099-R for a distribution that has code 4 (the death code) in Box 7. Don't expect the CPA to pick up on this. In the tax time crunch it is easily overlooked.



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Sean is a member of Ed Slott's Elite IRA Advisor GroupSM, an exclusive organization of financial advisors who are dedicated to being leaders in the IRA industry. As an Ed Slott Elite IRA Advisor, Sean proves to be an advisor with the specialized knowledge to navigate an increasingly more complicated tax environment.

- 1. Find out the amount of federal estate tax paid by the decedent.** It's listed on page 1 of the decedent's estate tax return, Form 706.
- 2. Create an imaginary estate tax return that assumes no IRA.** You'll need an estate tax planning software program to do it. Plug in the value of the estate after subtracting the value of the IRA. This will tell you what the federal estate tax would have been if there were no IRA in the estate.
- 3. Subtraction.** Subtract the imaginary federal estate tax as if there were no IRA (figured in step 2) from the federal estate actually paid (in step 1). That result is the amount of the IRD deduction.
- 4. Division.** Divide the IRD deduction (from step 3) by the amount of the IRA included in the estate. This will give you the percentage of the deduction you (the beneficiary) will be able to claim at each withdrawal from the inherited IRA.
- 5. Multiplication.** Multiply the amount of the IRA distribution you took during the year by the percentage in step 4 to get the amount of your annual IRD deduction. You cannot claim this deduction in a year that you did not withdraw from the inherited IRA.

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