

Q&A: Inheritance Basics

Many families have questions about inheritance. Learn the answers to some of the more common questions related to this important topic.

Q. My wife contends that she can inherit my retirement plan assets tax-free upon my passing. I'm not so sure. Who's right?

A. For the purposes of harmony in your home, you're both right. Your wife is correct in that she has the ability to defer taxes on your retirement plan assets through, for example, a spousal rollover IRA. You are also right, however, in that whenever your wife makes a withdrawal from the spousal rollover, she will pay income tax on the amount withdrawn.

Q. I plan to leave my 401(k) to my children after my lifetime. How much will they pay in taxes?

A. It depends. Because this type of inheritance is treated as ordinary income, the taxes your children owe will depend on the marginal tax rate in which they fall. One of the downsides of leaving a 401(k), IRA or other retirement plan asset to your children is that they may likely receive it during their peak wage-earning years—when they'll lose the greatest percentage to taxes. If they don't want it all in a lump sum, they can, in most cases, stretch out their distributions (and hence some taxation) over their lifetimes beginning the year after your passing.

Q. I'd like to make a charitable donation from an IRA. What's the next step?

A. You can designate Girl Scouts of Eastern Pennsylvania as the beneficiary of a percentage of your IRA assets. The full value of the funds given to us will then go to support our mission (income taxes will not erode their value). To make your gift, you simply need to complete a beneficiary designation form, naming Girl Scouts of Eastern Pennsylvania as beneficiary and specifying the percentage to go to us. Your estate will receive an estate tax charitable deduction for our share.

Have More Questions?

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