

# IRS RULES ASSETS OF AN INHERITED IRA MAY NOT BE TRANSFERRED TO A NON-IRA ACCOUNT AND THEN BACK TO THE INHERITED IRA ACCOUNT

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When an individual died, the individual's IRA became an inherited IRA for the benefit of a trust. The IRA custodian advised the trustees of the trust that they could not trade stocks in the IRA and that the assets of the IRA would have to be transferred to another account in order to trade stocks. Following the custodian's advice, the trustees transferred substantially all of the IRA assets to a non-IRA account held by the custodian for the benefit of the trust. Several months after the transfer of the IRA assets to a non-IRA account, the trust requested an IRS ruling that it be permitted to reverse the transfer so that the assets in the non-IRA account may be transferred to an inherited IRA account for the benefit of the trust. The IRS ruled the assets may not be transferred from the non-IRA account to an IRA account. Assets in an inherited IRA for the benefit of a trust are not permitted to be rolled over under Internal Revenue Code section 408(d)(3). The only permitted method of transferring assets from an inherited IRA to another inherited IRA is via a trustee-to-trustee transfer, which requires a direct transfer from one IRA to another IRA. Therefore, once the assets were distributed from an inherited IRA, there is no permitted method of transferring them back into the IRA. The trust may not transfer the IRA assets held in the non-IRA account into *any* IRA account, and the IRA assets transferred to the non-IRA account generally must be included in gross income for the year in which the IRA assets were distributed (i.e., transferred to the non-IRA account). While this ruling is directed only to the taxpayer that requested it and may not be used or cited as precedent, the ruling illustrates how strictly the IRS interprets and applies the inherited IRA rules.

*IRS Private Letter Ruling 202125007.*

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