

Income in Respect of a Decedent (IRD)

Dear Reader:

I am writing to inform you of certain special tax rules applicable to several items of income you have received known as "income in respect of a decedent," or "IRD."

For the most part, property you inherit is not included in your income for tax purposes. Items which are IRD, however, do have to be included in your income, although you may also be entitled to an IRD deduction on account of them.

What is IRD? IRD is income which the decedent (the person from whom you inherit the property) would have taken into his income on his final income tax return except that death interceded. The most common IRD item is the decedent's last paycheck, received after death. It would have normally been included in the decedent's income on his final income tax return. However, since the decedent's tax year closed as of the date of death, it was not included. As an item of IRD, it is taxed as income to whomever does receive it (the estate or another individual). Not just the final paycheck, but any compensation-related benefits paid after death such as accrued vacation pay or voluntary employer benefit payments, will be IRD to the recipient.

Other common IRD items include pension benefits and amounts in a decedent's individual retirement accounts (IRAs) at death as well as a decedent's share of partnership income up to the date of death. If you receive these IRD items, they are included in your income.

The IRD deduction. Although IRD must be included in the income of the recipient, a deduction may come along with it. The deduction is allowed (as an itemized deduction) to lessen the "double tax" impact that is caused by having the IRD items subject to the decedent's estate tax as well as the recipient's income tax.

To calculate the IRD deduction, the decedent's executor may have to be contacted for information. The deduction is determined as follows: First, you must take the "net value" of all IRD items included in the decedent's estate. The net value is the total value of the IRD items in the estate, reduced by any deductions in respect of the decedent. These are items which are the converse of IRD: items the decedent would have deducted on his final income tax return, but for death's intervening. Next you determine how much of the federal estate tax was due to this net IRD by calculating what the estate tax bill would have been without it. Your deduction is then the percentage of the tax that your portion of the IRD items represents.

Example: At A's death, \$50,000 of IRD items were included in his gross estate, \$10,000 of which were paid to B. There were also \$3,000 of deductions in respect of a decedent, for a net value of \$47,000. Had the estate been \$47,000 less, the estate tax bill would have been \$21,150 less. B will include in her income the \$10,000 of IRD she receives. If she itemizes deductions, she may also deduct \$4,230, which is 20% ($10,000/50,000$) of \$21,150.

Please let me know if I can be of assistance to you with regard to any of the above.