

IRD Reference Chart

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Source of Income	Notes Regarding IRD Treatment
Accounts Receivable	Uncollected sales proceeds from pre-death sales of crop or inventory
Accrued Vacation Pay	IRD
Alimony	IRD
Annuities	If annuitant dies <u>after</u> policy owner began withdrawals, IRD equals taxable portion of <i>all</i> payments; if annuitant dies <u>before</u> start of pay-out, IRD equals <i>all</i> payments in excess of owner's investment in the contract
Bonuses	IRD even if the bonus amount is determined after death
Buy/Sell Agreement	Insurance proceeds used to pay the beneficiary for decedent's work-in-progress are IRD
Capital Gains	Not IRD unless property was sold by decedent and all contingencies were resolved before death
Community Property	Both halves receive basis step-up even though only half of property is includible in deceased spouse's estate (Form 706); both halves of property eligible for IRD treatment (Form 1040 or 1041)
Crop Shares	IRD reported when crop shares are sold
Crops & Livestock	Not IRD unless sold or pledged prior to death
Deferred Compensation	IRD
Dividends	IRD if decedent was owner-of-record prior to death
Employee Stock Option Plans	Income recognition is deferred until disposition of stock
Employer's Voluntary Payment	IRD on Form 1041 but not includible on Form 706 unless payment is continuation of employee's compensation
HSA & MSA Accounts	The full value of the account less any medical expenses paid on decedent's behalf is IRD to the beneficiary [exception if <i>named</i> spouse]
Installment Sales	If self-canceling obligation, IRD equals as-yet unrecognized income from original sale; if note is sold at a discount, IRD will equal remaining unrecognized gain less amount of discount
Insurance Commissions	Trailing sales commissions on decedent's sales made during life
Interest: Municipal Bonds	Tax-free interest is not IRD
Interest: OID	No IRD
Interest: Savings Accounts	Early withdrawal penalties are waived for closure of account after death
Interest: T- Bonds	Accrued interest on a bond that is redeemable for the payment of estate tax is IRD
Interest: T-Bills	Pre-death accrual of interest is IRD
Interest: US Savings Bonds	If decedent previously elected to report accrued interest annually, IRD equals interest accrued before date of death
IRA: ROTH	Only pre-death earnings in the account are taxable
IRA: Traditional	Full balance of account if decedent made only <u>tax-deductible</u> contributions; if <u>non-deductible</u> contributions made, IRD equals account value at death less decedent's non-deductible contributions less any post-death earnings
ISOs	No income recognition upon exercise for regular tax but bargain element subject to AMT; estate/beneficiary do not have to satisfy holding requirements for capital gain treatment
Life Insurance	Not IRD unless policy sold to 3 rd party prior to owner's death
Medical Reimbursements	IRD if medical expenses previously deducted on decedent's 1040
Non-compete Agreement	IRD
Non-qualified Stock Options	Bargain element equals IRD but income recognition often postponed until exercise; no AMT consequences
Oil & Gas Royalties	IRD, but watch for payments in arrears or "suspended" payments
Partnership	Decedent's K-1 income is not IRD; Guaranteed Payments issued post-mortem are IRD; if income stream transferred to 3 rd party, payments attributable to unrealized receivables & goodwill are IRD if decedent was a general partner in a service partnership
Qualified Employer Plan	Income is recognized only when plan shares are distributed
Rents	Advance rents are not IRD
Royalties	If attributable to decedent's efforts as an author or inventor
Sales of Inventory	IRD
S-Corporation	Not IRD since new K-1 will be issued to estate/beneficiary
Settlement Proceeds	IRD if related to decedent's services or right to receive income; not IRD is related to the sale of an asset or goodwill
Sick Pay	Not IRD if received from workmen's compensation plan
Trust or Estate Income	Post-death distributions from another's trust/estate are IRD
Wages	Not subject to income tax withholding but subject to FICA taxes

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