

RMD Requirements for Inherited Retirement Accounts – DELAYED AGAIN

If you are reading this, you must have survived another US Federal tax filing season.

IRS is providing relief for failure to take an RMD in 2024 for beneficiaries who are required to take RMDs from an inherited account in connection with a decedent who was already in an RMD situation AND died in 2020 or later. This is the fourth year IRS has provided this relief. IRS says it will be issuing regulations that are anticipated to apply to calendar years beginning on or after January 1, 2025.

The SECURE Act, signed into law on December 20, 2019, changed the rules for distributions of inherited retirement plans, including inherited IRAs. One big change is the requirement for the account to be fully distributed by the end of 10 years from the year of death. (There are exceptions to this when the beneficiary of the account is the decedent's spouse, minor child, and a few other situations. These are not discussed in this article.)

Under former regulations, when a retirement account was inherited AND the decedent had already reached the required beginning date for taking distributions, the beneficiary of the account had to continue taking required distributions. The SECURE Act change created an "empty it within 10 years" provision and many taxpayers and tax professionals thought this REPLACED the requirement to continue taking distributions.

On February 24, 2022, IRS released proposed regulations. One portion of these proposed regulations stated the beneficiary of an inherited account is required to CONTINUE to take annual distributions (RMDs) each year, AND empty the account by the end of the 10th year after the year of death. These proposed regulations gave relief for 2021, but stated the RMD must begin no later than 2022. Later IRS also gave relief to these same beneficiaries for failure to take RMDs for 2022 and 2023.

Notice 2022-53 also provides relief for calendar years 2021 and 2022 by saying a taxpayer who failed to take a specified RMD "will not be treated as having failed" to satisfy the requirement and therefore, will NOT be assessed the 50% excise tax penalty. It also says anyone who did pay such a penalty may request a refund.

A copy of Notice 2024-35 can be found at www.irs.gov/pub/ by clicking on irs-drop and then clicking on n-2024-35.

EDITOR'S NOTE - Of course, this "apply next year" wording was also in the prior relief pronouncements, which makes us wonder if IRS is going to continue providing relief. We are advising our clients (i.e., beneficiaries) of the penalty

that applies if they don't take an RMD when one is required and NOT to count on IRS continuing to provide relief for these inherited accounts. Deciding to hold off on taking the RMD until November or so may be beneficial if the beneficiary doesn't want the RMD in the current year, just in case IRS provides relief again. Of course, the tax cost of taking the entire account in one lump may not be in the beneficiary's best interest.

This text has been shared courtesy of: David & Mary Mellem, EAs & Ashwaubenon Tax Professionals, 920-496-1065 (fax 920-496-9111).

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