

IRS Forgives 2023 Inherited IRA Required Minimum Distributions and Provides 60-Day Rollover Relief

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Forgiveness of RMDs for Certain Inherited IRA Beneficiaries

The ubiquitous summer heat has been unforgiving and unrelenting for most parts of the country. Unlike recent summer temperatures, the IRS was in a forgiving mood in July. You may know the Secure Act changed the Required Minimum Distribution (RMD) rules for certain IRA beneficiaries. For those inheriting an IRA after December 31, 2019, most **non-spouse beneficiaries** of IRA owners (or plan participants) could no longer stretch RMDs over their lifetime. Rather, these “non-eligible designated beneficiaries” became subject to the 10-year distribution rule, which requires the inheritor to fully deplete the beneficiary IRA within 10 years. As an example, if the decedent passed in 2020, most non-spouse beneficiaries would have until December 31st of 2030 to fully distribute the account.

(For clarity, the 10-year rule does not apply to “eligible designated beneficiaries” such as: spouses, minor children of the original account holder (decedent), those who are chronically ill or permanently disabled, and those who are not more than 10 years younger than the original account holder.)

In February of 2022, the IRS surprised many with its proposed interpretation of Secure Act Inherited IRA regulations, stating that within the 10-year payout window, annual RMDs are required in years 1-9 of the 10-year period for non-eligible designated beneficiaries if the original account owner died on or after their required beginning date. Simply, if the decedent was in RMD status, the inheritor **had** to take a required distribution in years 1-9 (account could still be fully distributed at any time). This interpretation caught financial advisors and their clients off guard.

Luckily, the IRS recognized the turmoil this proposed regulation instigated. In October of 2022, the IRS issued Notice 2022-53, forgiving RMDs for non-eligible designated beneficiaries who missed distributions in 2021 and 2022 (decedents from 2020 or 2021). Likewise, in July of this year, the IRS issued notice 2023-54, extending forgiveness of RMDs for 2023 for those same beneficiaries and for those beneficiaries of a 2022 decedent. In sum, RMDs are waived from 2021-2023 for beneficiaries subject to the 10-year rule where the original IRA owner was in RMD status. Confused?

60-Day Rollover Relief

Another wrinkle emerged from IRS notice 2023-54 in July, which is important for anyone born in 1951 and celebrating their 72nd birthday this year. Late in 2022, Secure Act 2.0 legislation pushed the RMD age for traditional IRAs from 72 to 73. Consequently, anyone turning 72 this year will not have to take a required distribution from their IRA or other qualified plans. As the legislation was enacted late in the year, some individuals or custodians may have inadvertently set up and processed the first RMD for individuals turning 72 in 2023.

The IRS noted the narrow window between Secure Act 2.0 and potential actions by individuals to commence their 2023 RMDs early in the year. As a result, the IRS extended the 60 Day IRA Rollover Rule for individuals born in 1951 who withdrew their first RMD, or portion of it, between January 1 and July 31. If by chance this happened to you, you have until September 30 to return any distributions and defer your first RMD until age 73 in 2024.

If you have questions about your RMD status after inheriting an IRA, or the updated RMD rules for your traditional IRAs, please reach out to Naples Global Advisors at (239) 776-7900.

