

IRS Waives 50% Penalty for Missed 2021 & 2022 RMDs from Beneficiary IRAs Subject to the 10-Year Rule

On October 7th, the IRS released IRS Notice 2022-53, which waived the 50% penalty for any required minimum distributions (RMDs) missed in 2021 or 2022 from beneficiary IRAs subject to the 10-year distribution rule. Additionally, the notice states that a penalty on missed RMDs within the 10-year term will not be imposed until 2023 at the earliest. If a beneficiary has already paid a penalty for missing the referenced RMD, they may request a refund from the IRS.

IRS Notice 2022-53 does not address if this means these specific RMDs will be waived retroactively for 2021 or 2022. However, some industry professionals assume such will be the case due to the confusion associated with the situation.

It is critical to state that the notice also does not affect lifetime RMDs, RMDs from inherited IRAs by Eligible Designated Beneficiaries (EDBs), or RMDs by beneficiaries who inherited retirement accounts before 2020. EDBs include a minor child of the original account owner, a disabled or chronically ill individual, or any other person who is not more than 10 years younger than the deceased account holder.

This notice was released due to the updated proposed regulation from the IRS on February 23rd, 2022— which clarified if the retirement account owner died on or after their required beginning date in 2020 or later, a non-eligible designated beneficiary would be subject to the 10-year rule AND would be required to take annual life expectancy payments during years 1-9 of the 10-year period, with the account being fully depleted by December 31st of the 10th year following the passing of the original IRA owner.

If the retirement account owner died before their required beginning date in 2020 or later, a non-eligible designated beneficiary would not be subject to the above guidance and not subject to annual distributions; only the requirement to fully deplete the IRA by December 31 of the 10th year following the passing of the original IRA owner. This extends to inherited Roth IRAs, as there is no required beginning date for distributions from a Roth IRA.

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