

Thursday, June 22, 2023

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Question:

I am involved with a traditional non-spouse inherited IRA that was passed from my mother to myself and two siblings in 2022. My mother was 84 when she passed and was taking RMDs.

I understand the new legislation passed under the SECURE Act requires any such traditional inherited IRA requires full distribution by the end of the 10-year period following her death. I fully understand the law change.

My question revolves around potential yearly RMDs for each of us starting in 2023. Are RMDs for inherited IRAs now required by IRS regulation starting in 2023? If so, under what table is the RMD calculated (by applying the factor to the 12/31/2022 balance)?

The Treasury issued PROPOSED regulations in 2022 indicating that RMDs for inherited IRAs would be required. My understanding is the proposed regulations were met with significant protest by tax

professionals and practitioners. However, my understanding is that PROPOSED regulations are not binding until finalized by the Treasury Dept. I have not seen any document or commentary indicating that the applicable regulations have ever been finalized. Are RMDs required for inherited IRAs in 2023 until the Treasury Dept. finalizes the regulations?

Answer:

We believe that annual RMDs are required for 2023. As you noted, the IRS issued proposed regulations in February 2022 requiring that beneficiaries subject to the 10-year payout rule also take annual RMDs in years 1-9 of the 10-year period. That annual RMD requirement applies only if the IRA owner died or after his RMD required beginning date. While those proposed regulations have not yet been finalized, the prudent course would be to follow the proposed regulations until the IRS finalizes the rules – which could take some time. Since your mother died after her required beginning date, you and your siblings must take the first annual RMD by 12/31/23. If the IRA has already been split into separate inherited accounts, or will be split by 12/31/23, you and your siblings would each use your respective life expectancy factor under the IRS Single Life Expectancy Table for 2023. For

subsequent years, you and your siblings would subtract one from the prior year's factor.

Question:

My age is currently 69, and several years ago I converted funds in a regular 401(k) account to a Roth 401(k) account. My questions are whether the 5-year rule applies to this conversion and at what age does my RMD kick in for the amount in my regular 401(k)?

Answer:

The 5-year rule for Roth 401(k) accounts determines whether a distribution of earnings is tax-free. Once the 5-year period is satisfied, earnings can come out tax-free, as long as distribution occurs after age 59 ½ (or after death or disability). The 5-year period begins on January 1 of the year you made your first conversion (or Roth employee contribution) to that particular plan. If your initial conversion or Roth 401(k) contribution was done in 2018 or earlier, your Roth plan earnings are now tax-free.

Are you still working? Unless you own more than 5% of the company sponsoring the plan, you can delay RMDs on your non-Roth 401(k) funds until the April 1 following your retirement. If you do own more than 5%, or if you have already retired, RMDs begin in the year

you reach age 73. However, the first RMD can be delayed until the following April 1. (Note: Starting in 2024, RMDs on Roth 401(k) accounts are not required.)

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