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Answers To Advisors' 2023 Beneficiary RMD Questions

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The RMD (required minimum distribution) rules for IRA and plan beneficiaries have gone through so many recent changes that it's not surprising that advisors have lots of questions on which RMD rules apply for 2023.

The answer depends on when the beneficiary inherited (under the SECURE Act or not), what type of beneficiary they are, and in some cases, whether the IRA owner they inherited from died after the owner had already begun RMDs.

Pre-SECURE Act (Before 2020)

Beneficiaries who already qualified for the stretch IRA (those who inherited in 2019 or earlier) are grandfathered from the SECURE Act and get to keep that stretch IRA payout term in place. However when they die, any remaining balance will be subject to the 10-year rule created under the SECURE Act (see next paragraph).

SECURE Act (On Or After 2020)

The original SECURE Act created a significant beneficiary RMD change by eliminating the stretch IRA for most beneficiaries and replacing that paydown period with a 10-year term. But even that became confusing.

The stretch IRA elimination (and 10-year rule) became effective for inheritances after 2019. The 10-year rule requires that the entire inherited IRA or Roth IRA balance must be withdrawn by the beneficiary by the end of the 10th year after death.

But the SECURE Act also created a special class of beneficiaries identified as Eligible Designated Beneficiaries (EDBs). These beneficiaries get to keep the stretch IRA, as before.

EDBs must first be *designated* beneficiaries. They must be individuals (or qualifying trusts) named on the IRA or plan beneficiary form, and they must fit into one of these five categories:

5 Classes Of Eligible Designated Beneficiaries

1. Surviving spouses
2. Minor children of the account owner, until age 21—but *not* grandchildren
3. Disabled individuals—under the strict IRS rules
4. Chronically ill individuals
5. Individuals not more than 10 years younger than the IRA owner (or beneficiaries who are older than the IRA owner)

February 2022—IRS Issues Proposed Regulations

When the SECURE Act was enacted, it was widely believed that the 10-year rule had no annual RMDs, except at the end of the 10-year term when the full balance had to be withdrawn. However, in February 2022 the IRS surprised most of us by ruling that beneficiaries subject to the 10-year rule also will be subject to RMDs for years 1–9 if they inherited from someone who had already begun taking their RMDs, meaning they died after their required beginning date (RBD).

This created even more confusion, especially for beneficiaries who in 2022 found out that they were supposed to take an RMD in 2021.

IRS Provides Relief For 2021 And 2022 Beneficiary RMDs

Due to the confusion created by the IRS proposed regulations, in October 2022, the IRS said that affected beneficiaries would not be subject to the 50% penalty for missed 2021 and 2022 RMDs. This essentially meant that these RMDs did not have to be taken.

SECURE 2.0 Act—Enacted December 29, 2022

SECURE 2.0 did not address or correct this 10-year rule RMD issue, so it is likely that the IRS will keep this rule in place when they issue final regulations later this year.

SECURE 2.0 also lowered the 50% RMD penalty to 25%, and then to 10% if the missed RMD is timely made up (generally within two years).

That's where we stand now.

Now you see why advisors have so many questions on which beneficiaries are subject to RMDs in 2023 and which rules apply.

Here are the answers to the most asked questions:

If a beneficiary subject to the 10-year rule is required to take RMDs for years 1–9, how are they calculated? Is it one-tenth each year?

No. Years 1–9 RMDs follow the stretch IRA rules based on the beneficiary's age in the year after death reduced by one each year. In year 10, the remaining balance must be withdrawn.

If an adult son inherited an IRA before 2020, how are 2023 RMDs determined?

He still qualifies for the stretch IRA since he inherited before the SECURE Act was effective. He continues his existing stretch IRA schedule, except that he should re-set his payout period to the new Single Life Table (effective in 2022). The new table will slightly lower his ongoing RMDs.

Did this adult son qualify for the IRS relief for any missed 2021 and 2022 RMDs?

No. Since this beneficiary is not subject to the 10-year rule, he does not get relief if, due to confusion over the new rules, he missed his 2021 or 2022 RMDs. He will have to make them up to avoid the 50% RMD penalty that applied for those years. After taking the missed RMDs, he should file IRS Form 5329 to request that the IRS waive the 50% RMD penalty.

If an adult child inherited in 2020, what RMDs are due for 2023?

Since the inheritance occurred after 2019, the SECURE Act rules apply.

The child (assuming that he is a designated beneficiary) is subject to the 10-year rule. But if he inherited from a parent who had already begun taking RMDs, then the child originally would have been subject to RMDs for years 1-9 of the 10-year term, beginning in 2021. But since the IRS provided relief for 2021 and 2022, the child doesn't have to begin annual RMDs until 2023.

How would the 2023 RMD be calculated? Do the 2021 and 2022 RMDs have to be made up?

Make-ups of the 2021 and 2022 RMDs probably don't have to be taken. (The IRS hasn't definitively addressed this.) The 2023 RMD is calculated based on the December 31, 2022 IRA balance, but the life expectancy factor will be based on the beneficiary's age in the year after death (2021) under the new IRS Single Life Table, and then reduced by one for each year going forward (even though the 2021 and 2022 RMDs were not taken).

Since the 2021 and 2022 RMDs did not have to be taken, does the 10-year term now begin in 2023?

No. The 10-year term does not change. If death was in 2020, then the entire inherited IRA balance must still be withdrawn by the end of 2030, even though no RMDs were required for 2021 and 2022. In effect, the 10-year term is now an 8-year term.

If the beneficiary was an EDB and inherited in 2020 (eligible for the stretch IRA), did RMDs for 2021 and 2022 have to be taken?

Yes. The IRS relief for those years only applied to beneficiaries subject to the 10-year rule who inherited from an IRA owner who died after his/her RMD required beginning date. If those 2021 and 2022 RMDs were not taken, they need to be made up, and

relief from the 50% penalty should be requested by filing Form 5329.

Grandmom died in 2015 at age 80 with a *Roth* IRA. The beneficiary is her grandchild. What is the 2023 RMD for the grandchild?

The grandchild gets to continue the stretch IRA for the rest of her life, because she inherited it before the SECURE Act was effective. She should re-set to the 2022 Single Life Table.

If in the above example, the grandmother died in 2020 at 85, what would be the granddaughter's RMD for 2023?

The 10-year rule applies, but there are no annual RMDs for years 1–9 because this was a *Roth* IRA. Even though the grandmother died at age 85, she is considered to have died *before* reaching her RMD required beginning date (since Roth IRA owners are not subject to lifetime RMDs). So, the only RMD would be the full inherited Roth IRA balance that must be withdrawn by the end of the 10th year after death—in this case by the end of 2030.

This is a big advantage that inherited Roth IRAs have over traditional inherited IRAs.

Hopefully, these Q-and-As will help you untangle the complex RMD questions you will no doubt be receiving from IRA beneficiaries this year.

Ed Slott, CPA, is a recognized retirement tax expert and author of many retirement-focused books. [Click here to register for a webcast](#) he will be conducting with Financial Advisor on January 25.

For more information on Ed Slott, Ed Slott's 2-Day IRA Workshop and Ed Slott's Elite IRA Advisor Group, please visit www.IRAhelp.com.

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