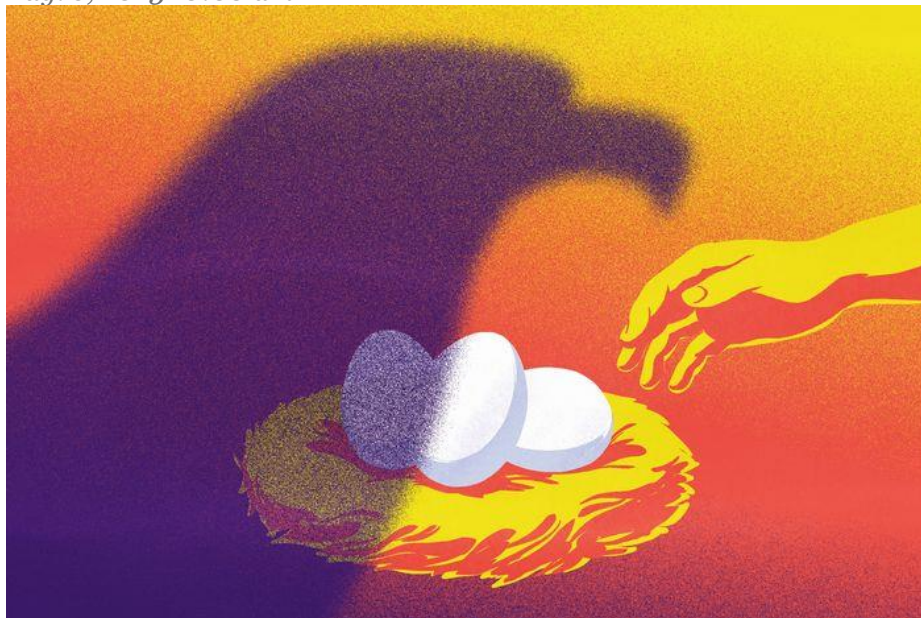


# What Inheritors of IRAs Need to Know About Required Withdrawals

***A lot of taxpayers were confused, and missed taking RMDs when they should have. Fortunately for them, penalties have been waived.***

*By Leonard Sloane Wall Street Journal*

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The government forces IRA holders to withdraw money at a certain point. The rules can be confusing for inherited IRAs in particular. ILLUSTRATION: ALEX NABAUM

There has been a lot of confusion about inherited individual retirement accounts.

The confusion is largely about the annual withdrawals known as required minimum distributions. If you inherit an IRA, you may have to take these RMDs, which are then taxable.

But because of confusion over a 2019 law, many heirs were unaware they had had to take an RMD.

Guidelines were so opaque that the Internal Revenue Service in October 2022 retroactively waived RMDs for those who fit into a specific beneficiary

category and mistakenly hadn't taken the RMDs for the tax years 2021 and 2022. Then, last month, the IRS issued a similar waiver releasing inheritors in the same category from making RMDs this tax year as well. As a result, the first required withdrawals for these types of IRA inheritors aren't due until 2024.

Here's the background and what inherited-IRA holders should know:

### **Three categories**

The Secure Act of 2019 established three categories of beneficiary for traditional IRAs: Eligible designated beneficiaries, or EDBs, who include surviving spouses, children of the account owner until age 21, disabled and chronically ill individuals and those not more than 10 years younger than the original IRA owner; nondesignated beneficiaries, or NDBs, who include estates and charities; and noneligible designated beneficiaries, or NEDBs, who include most nonspouse beneficiaries—such as children over age 21 and grandchildren—and are the ones affected by and benefiting from the IRS waivers.

### ***What are your best tips for those inheriting an IRA? Join the conversation below.***

For deaths in 2020 or later, the Secure Act required the process of taking withdrawals to continue, but for NEDBs it created the 10-year payout rule: If the original IRA owner died before his or her required beginning date to take withdrawals—generally April 1 of the year after becoming 73 years old—minimum withdrawals aren't required for NEDBs during years one to nine of the 10-year period. The account just has to be emptied by the end of the 10th year after the year of the original account owner's death. (All Roth IRA owners are deemed to have died before their required beginning date.)

But if the original IRA owner died on or after the required beginning date—in effect, “turning on” the RMD—NEDBs would have to take withdrawals from that account in every year from one to nine, with the entire remaining IRA balance distributed by the end of the 10th year.

### **Sorting it out**

“There was a lot of confusion out there and the idea of RMDs in years one to nine took some time to figure out,” says Andy Ives, an IRA analyst at Ed Slott &

Co., a tax consulting firm in Rockville Centre, N.Y. It took over two years after the Secure Act was passed for the industry to come to a consensus that “RMDs did actually apply in years one to nine of the 10-year rule,” Ives says.

Lots of NEDBs who were subject to the 10-year rule didn’t know that they had to take withdrawals in 2021, 2022 and 2023. And if they failed to do so, as many did, they may have been subject to a penalty of 50% of the amount that should have been withdrawn for each year it should have been taken. (That penalty was reduced this year to 25% and even 10% if corrected in a “timely” manner.)

Fortunately, for those NEDBs subject to penalties, the IRS realized there was significant confusion and decided to grant relief. Last October, it issued a notice allowing for a transition and waiving the penalty for missed withdrawals in 2021 and 2022 within the 10-year period. And in July, it added another year of relief by excusing 2023 missed withdrawals within the 10-year period. If a taxpayer already paid a penalty for a “missed RMD” in 2021 or 2022, a refund from the IRS can be requested.

So, NEDBs who inherited an IRA in 2020 now essentially have three years of withdrawals—2021, 2022 and 2023—waived. Those who inherited in 2021 have two years—2022 and 2023—of RMDs forgiven. And those who inherited in 2022 have their first year of withdrawals within the 10-year period, 2023, waived. (Technically it is the penalty for failure to take the withdrawal that is being waived, but the result is the same because if you don’t take the RMD there is no penalty.)

The amount of the RMD within the 10-year period uses the IRS Single Life Expectancy Table. Initially, it takes the beneficiary’s age in the year after the original owner died to find a life expectancy factor (available in IRS Publication 590-B), which is then divided into the previous year’s Dec. 31 inherited IRA account balance. This factor is lowered by 1 in each successive year.

The three categories of beneficiary and the 10-year rule were outlined in proposed regulations of the IRS. These regulations should be followed until final regulations are issued, which could take many years.

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