

Confusion about RMDs on inherited IRAs

New IRS rules complicate the calculation of required minimum distributions for those who have inherited individual retirement accounts.

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Before the SECURE Act, there was the [stretch IRA](#), which was relatively simple for advisers and clients to calculate for beneficiaries.

But now, after the SECURE Act and the recent plot twists added by the proposed IRS regulations, even common beneficiary scenarios are overly complex to figure out.

Let's look at a typical situation an adviser might be asked about. This is an actual question we received, and the answer wasn't simple.

When Grandma died in 2021, she had two individual retirement accounts that she left to her granddaughter. One was hers and the other was an IRA Grandma inherited from her brother. What are the [required minimum distributions](#) from each IRA for the granddaughter?

Before the SECURE Act, this would have been easier to figure out, but not now.

The granddaughter doesn't get the stretch IRA because she inherited after 2019, when the SECURE Act rules became effective. Although she's a minor, she doesn't qualify as an eligible designated beneficiary, or EDB.

Although a minor child is an EDB (until age 21), a grandchild is not. The minor must be the child of the deceased IRA owner. So in this case the granddaughter isn't an EDB and doesn't get the stretch IRA. Instead, she's subject to the 10-year rule, under which the entire amount inherited must be withdrawn by the end of the 10th year after death.

Even that sounds somewhat easy, but due to the recent IRS RMD rules, if the IRA owner's death occurs after the required beginning date, or RBD, then the beneficiary must also take RMDs for years one through nine based on the beneficiary's life expectancy (like the old stretch IRA, but only for the first nine

years of the 10-year term). Then the remaining balance must be withdrawn by the end of the 10th year.

Then there's the other IRA, which Grandma inherited from her brother and which she left to the granddaughter. This adds another layer of RMD complexity.

Let's get back to the question: What are the RMD implications when Grandma dies and leaves both her own IRA and an inherited IRA to her granddaughter?

If you as the adviser faced this common question, would you be able to give the right RMD answer? Let's see.

FACTS

Grandma Edna was born in 1940 and died in 2021 at age 81.

2011: Grandma Edna inherits an IRA from her brother Jack, who was two years younger (born in 1942). Jack was 69 at his death, so he died before his RBD.

2012: Grandma Edna begins taking stretch IRA distributions from the inherited IRA based on her age, which is 72.

2021: Grandma dies. When Grandma Edna dies, she leaves both her own IRA and the IRA she inherited from her brother to her granddaughter. Ava is 17 when she inherits the two IRAs in 2021.

AVA'S RMD REQUIREMENTS

IRA #1: GRANDMA'S OWN IRA

Ava is 17, but she's not an eligible designated beneficiary, because she's not the child of the deceased IRA owner, she's the grandchild. She's a non-eligible designated beneficiary and subject to the 10-year rule. She must empty this inherited IRA by the end of 2031 (the 10th year after Grandma's death in 2021).

However, since Grandma died after her RBD, under the IRS proposed regulations Ava must take RMDs in years one through nine after her Grandma's death, based on Ava's age (18) in the year after death. A good way to determine whether RMDs are required within the 10-year period is to remember that RMDs can never be turned off. If the previous account owner was taking RMDs, the beneficiary can't turn them off — annual RMDs must be made in addition to the 10-year rule applying.

To determine the RMDs for years one through nine, divide the account balance on Dec. 31 of the prior year by a life expectancy factor determined from the Single Life Table.

The Single Life Table shows Ava’s factor as an 18-year-old is 67.0 years. That factor is reduced by one year for each of the succeeding years (years two through nine), and then any remaining balance must be withdrawn by the end of year 10 (by the end of 2031) as follows:

AVA’S RMD REQUIREMENTS ON GRANDMA’S IRA

Year after death		Life expectancy factor
Year 1	2022	67.0
Year 2	2023	66.0
Year 3	2024	65.0
Year 4	2025	64.0
Year 5	2026	63.0
Year 6	2027	62.0
Year 7	2028	61.0
Year 8	2029	60.0
Year 9	2030	59.0
Year 10	2031	Remaining balance must be withdrawn by Dec. 31

PLANNING NOTE

Remind clients that the RMDs for years one through nine are only the minimums that must be withdrawn. The beneficiary can always withdraw more each year to smooth out the tax bill over the 10-year term. This can help avoid a big tax hit in year 10.

IRA #2: IRA THAT GRANDMA INHERITED FROM HER BROTHER

Grandma was born in 1940, and she inherited from her brother Jack in 2011, when she was 71. Therefore, her stretch period begins the year after (in 2012) based on her age that year of 72.

Looking at the new 2022 Table (because the life expectancy must be re-set to the new table), the life expectancy for a 72-year-old is 17.2 years, with the first RMD beginning in 2012. That 17.2-year factor is reduced by one year for each year until Grandma dies in 2021 (nine years later).

SUCCESSOR BENEFICIARY

Granddaughter Ava inherits in 2021. But since this is an inherited IRA, Ava is a successor beneficiary, or the beneficiary's beneficiary, so she is subject to the 10-year rule.

But since Grandma had already begun taking RMDs on this inherited IRA, under the new IRS proposed regulations, Ava must take RMDs for years one through nine after Grandma's death. (Remember, RMDs can't be turned off.)

Since Ava is a successor beneficiary, she can't use her own life expectancy, as she could on the RMDs from Grandma's own IRA. She must continue Grandma's remaining RMD schedule beginning in 2022 (the year after Grandma's death). This is reminiscent of the old "step into the shoes" of the first beneficiary rule.

Here are the RMDs from Grandma's inherited IRA:

AVA's RMDs ON IRA GRANDMA INHERITED FROM BROTHER

Life expectancy factor

2011

Jack's death (Grandma is 71)

Life expectancy factor		
2012	17.2	First year of RMDs using a base factor (age 72)
2013	16.2	
2014	15.2	
2015	14.2	
2016	13.2	
2017	12.2	
2018	11.2	
2019	10.2	
2020	9.2	

Note that Ava will not receive the full 10-year payout term on this inherited IRA, even though she is subject to the 10-year rule!

Also note that if Grandma hasn't yet taken her year-of-death RMD in 2021, then Ava would be responsible for that RMD.

How well did you do on this one?

And this is just one common RMD scenario advisers will likely be asked about at some point.

Thanks to both Congress and the IRS, figuring out beneficiary RMDs is now much more convoluted than ever.

Hopefully, this example helps.

