

## **FOUR PROPOSED RMD REGULATIONS IMPACTING BENEFICIARIES**

The IRS issued proposed amendments during 2022 to the income tax regulations that govern required minimum distributions (RMDs) for IRAs and employer plans with accounts and benefits. These proposed regulations are to align with the amendments made by the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act). The proposed regulations include clarifications and important changes.

Generally, tax-deferred retirement accounts are subject to RMDs except for Roth IRAs held by the owner. RMD regulations depend on whether the RMD applies to the owner/participant or beneficiary. The following are the four proposed RMD regulations impacting beneficiaries.

1. **Definition of a Minor.** An “eligible designated beneficiary” is defined by the SECURE Act as a “designated beneficiary” who, at the time of the account owner’s death, is a minor child of the account owner, a surviving spouse of the account owner, disabled, a chronically ill individual, or an individual that is not more than 10 years younger than the account owner. If a beneficiary is the minor child of an account owner, then the beneficiary is an “eligible designated beneficiary.” The proposed regulations clarify that a minor is defined as under 21 years of age.

2. **Annual RMDs During the 10-Year Post-Death Period for a “Designated Beneficiary.”** The SECURE Act provides that a “designated beneficiary” who is not an “eligible designated beneficiary” is subject to the 10-year rule. The distribution options for a “designated beneficiary” after 2019 in relation to the required beginning date (RBD) are as follows.

a. **Account Owner Death Pre-RBD.** Under the 10-year rule, if the account owner dies before the RBD, distributions are optional for the nine years following the year that the account owner died; however, the account must be fully distributed by the end of the 10<sup>th</sup> year. This rule applies to Roth IRAs as well.

b. **Account Owner Death Post-RBD.** If the account owner dies on or after the RBD, the “designated beneficiary” must take annual RMDs over the “designated beneficiary’s” life expectancy beginning on December 31<sup>st</sup> of the year following the year that the account owner died, and the account must be fully distributed by the end of the 10<sup>th</sup> year or the end of the “designated beneficiary’s” life expectancy, whichever is earlier.

3. **The Option to Choose for a Pre-RBD “Eligible Designated Beneficiary.”** An “eligible designated beneficiary” who inherits a retirement account from an individual that dies before the RBD has the following two options.

a. **The 10-Year Rule.** Under the 10-year rule, distributions are optional for the nine years following the year that the account owner died; however, the account must be fully distributed by the end of the 10<sup>th</sup> year; or

b. **The Life Expectancy Rule.** Under the life expectancy rule, distributions are taken over the life expectancy of the “eligible designated beneficiary.” These distributions must

begin by December 31<sup>st</sup> of the year following the year that the account owner died. However, if the surviving spouse is the “eligible designated beneficiary” of the account owner, the distributions must begin the later of December 31<sup>st</sup> of the year following the year that the account owner died, or December 31<sup>st</sup> of the year that the account owner would have reached the age of 72.

Note that retirement plans may provide for either of these options. However, if the plan defaults to the 10-year rule, then a beneficiary must elect for life expectancy by rolling over the inherited account to a beneficiary IRA that provides for such an option. The rollover must be directed by December 31<sup>st</sup> of the year following the year that the retirement account owner died.

**4. The “Shorter Of” Period for a Post-RBD “Eligible Designated Beneficiary.”**

An “eligible designated beneficiary” who inherits a retirement account from an individual who died on or after the RBD must take annual RMDs beginning on December 31<sup>st</sup> of the year following the year that the account owner died. The RMD is based on the longer of: (a) the life expectancy of the decedent; or (b) the life expectancy of the beneficiary. The inherited account must be fully distributed by December 31<sup>st</sup> of the year that the beneficiary’s life expectancy would be equal to or less than one even if the life expectancy of the decedent is longer and thus used to calculate the beneficiary’s RMDs.

This update is intended to provide a brief summary of the proposed RMD regulations impacting beneficiaries. If you have any questions, please consult with one of our attorneys.



3020 North Military Trail, Suite 100, Boca Raton, Florida 33431 • (561) 910-5700 • Fax: (561) 910-5701  
[www.katzbaskies.com](http://www.katzbaskies.com)