

IRS CONTINUES RELIEF FOR BENEFICIARIES OF INHERITED IRAS

While proposed regulations for the SECURE Act 1.0 brings good news for beneficiaries, they continue to cause confusion. After recent IRS Notice 2023-54, two client groups may need guidance: Clients with IRA accounts inherited on or after 1/1/2020 and clients who turned (or will turn) 72 in 2023.

The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 (also known as the SECURE Act 1.0) rewrote the rules for inherited retirement accounts, including traditional and Roth IRAs. According to the SECURE Act, certain designated beneficiaries who inherited qualified accounts in 2020 and after are required to liquidate the asset in 10 years. Regulations proposed in February 2022 added confusion surrounding whether or not annual distributions were required from inherited accounts under the new 10-year rule.

When the SECURE Act was issued, most experts interpreted the 10-year rule in the Act as the same as the five-year rule: No need to take an annual RMD—just liquidate the account completely by the fifth (or, in this case, tenth) year. The proposed regulations, however, indicate that a beneficiary must take an annual RMD during the 10-year period after the owner's death (if it occurred on or after their required beginning date). These regulations were intended to go into effect in 2022, but taxpayers could also use them for their 2021 RMDs. However, the new interpretation of the 10-year rule caused confusion among both clients and financial professionals.

The IRS recognized the confusion regarding the distributions and offered some relief through Notices 2022-53 and 2023-54. Let's review how these Notices provide some clarity for clients.

Rules Based on IRA/Retirement Account Owner's Age

Currently, RMD age, 73 through 2032, then 75. Per the proposed regulations:

- If the owner had not reached the RBD date when he or she died, certain designated beneficiaries would need to liquidate the account by December 31 of the year of the tenth anniversary of the owner's death.
- If the owner died on or after his or her RBD and was taking RMDs, certain designated beneficiaries of the deceased account owner must take annual RMDs in years one through nine.

Update from IRS Notice 2022-53

This notice provides some penalty relief to designated beneficiaries who did not take RMDs since the SECURE Act was implemented in 2020. Keep in mind that RMDs were waived in 2020 due to the Coronavirus pandemic.

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The notice waived the 50% penalty for RMDs not taken in 2021 and 2022. *As a point of clarification, the notice did not waive RMDs for 2021 and 2022; it simply stated that there is no penalty.* If the 50% penalty was paid, the taxpayer could request a refund. The regulations were set to go into effect on 1/1/23.

Updates from IRS Notice 2023-54

Issued 7/14/23, Notice 2023-54 extends the relief provided in Notice 2022-53. Like Notice 2022-53, the new notice waives the penalty for RMDs not taken in 2023 from accounts inherited on or after 1/1/20. This proposed regulation will not be in effect before 2024.

While this does not eliminate the confusion around the proposed regulations that prompted these notices, it does provide relief for an additional year.

Additional Relief for Those Who Turned 72 in 2023

Enacted in late 2022, the SECURE Act 2.0 changed the RBD from age 72 to age 73. Because of the timing of this legislation, many IRA and qualified-account owners still received notices from their custodians that an RMD was due. Moreover, individuals who had agreed to automatic RMDs may have received an unnecessary RMD.

Notice 2023-54 also provides relief for this group. The distributions made were not technically RMDs, as the RBD changed. If an individual does not want the distribution, he or she has until 9/30/2023 to roll the funds back. For those who received multiple distributions from an IRA,

Notice 2023-54 waives the one-per-year indirect rollover rule. Note that rollover amounts described in the notice will trigger the one-rollover-per-year rule limit for any subsequent IRA distributions that occur in the following 12 months.

As an example: Tom will turn age 72 in 2023. He received four months of RMDs from his IRA custodian. On 6/1/23, Tom completes his rollover of the distributions. He must now wait 12 months to request an additional indirect rollover, or he will trigger the one-rollover-per-year rule. Remember that direct rollovers are always an option.

The proposed regulations are delayed again, but there is relief for certain beneficiaries. And those affected by the RBD change in the SECURE Act 2.0 have relief options as well.

Actions You Can Take Right Now

- Contact clients who inherited IRAs or qualified accounts on or after 1/1/20.
- Confirm the relief provided and address any concerns.
- Determine whether or not modifications or changes are needed to their retirement-income plans.

Resources/Links

[Good News! IRS Notice 2022-53 Provides Relief for Beneficiaries of Inherited IRAs](#)

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