

IRS Waives Penalties For Missed Inherited RMDs - Tax Planning

The IRS has recently extended relief for certain heirs regarding Required Minimum Distributions (RMDs) from inherited IRAs. The penalties for missed RMDs from inherited IRAs for the years 2020 through 2024 will be waived. This applies to beneficiaries who inherited IRAs from individuals who died after 2019 and were subject to the SECURE Act's 10-year rule.

Under the SECURE Act of 2019, most non-spouse beneficiaries must deplete inherited IRAs within 10 years of the original account holder's death. This rule replaced the previous "stretch IRA" strategy, which allowed beneficiaries to extend distributions over their lifetimes.

Initially, there was confusion about whether annual RMDs were required within the 10-year period. The IRS proposed regulations in 2022 that would have required annual RMDs if the original account holder had already started taking distributions. However, this requirement has been waived for 2020 through 2024.

The IRS has indicated that 2024 will be the last year for such relief. Starting in 2025, beneficiaries will need to comply with the final regulations, which will likely require annual RMDs if the original account holder had begun taking them. Failure to comply will result in an excise tax of 25% on the amount that should have been withdrawn, reduced to 10% if corrected within two years.

Beneficiaries should consider the tax implications of delaying RMDs. While the waiver provides temporary relief, it may result in larger withdrawals and higher tax liabilities in the future.

Sources: IRS, www.irs.gov/retirement-plans/required-minimum-distributions-for-ira-beneficiaries

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