

HOW ARE 2023 RMDs CALCULATED FOR BENEFICIARIES WHO GOT RMD RELIEF?

BY IAN BERGER, JD, IRA EXPERT

The IRS recently announced it would waive the 50% penalty on RMDs missed in 2021 and 2022 for IRA beneficiaries subject to the 10-year payout rule who inherited in 2020 or 2021.

These waivers were announced in IRS Notice 2022-53. Although the Notice is not clear, it appears that beneficiaries are not required to take RMDs for years that the penalty waiver applies to. However, as things stand now, the grace period will end in 2023. So, even beneficiaries who benefitted from the IRS's generosity will be subject to the 50% penalty if they don't take their 2023 RMD by 12/31/23.

How will the 2023 RMD (and future RMDs) be calculated if the beneficiary didn't take annual RMDs for 2021 and 2022 (for a 2020 death) or for 2022 (for a 2021 death)?

First, the 10-year payout period remains the same, meaning it will still end on 12/31 of the year of the 10-year anniversary of the original IRA owner's death. Second, the 2023 RMD will be determined using a life expectancy as if the RMD for 2021 and 2022 were taken – even if they weren't.

Here's an example: Aaron died in 2020 at age 82 and left his traditional IRA to his daughter Zoey, age 55. Zoey is a non-eligible designated beneficiary, so she is subject to the 10-year payout rule. Aaron died after his RMD required beginning date. Without the recent IRS guidance, Zoey would have been subject to a 50% penalty if she didn't receive an RMD for 2021 (the 1st year of her 10-year payout period) and a penalty if she doesn't take her 2022 RMD (the 2nd year of her 10-year term).

Assume that Zoey doesn't take RMDs for either 2021 or 2022. Zoey's 10-year payout period remains the same, so she must still empty the inherited IRA 12/31/30. And, she must receive annual RMDs for years 3-9 of the 10-year period starting in 2023. The 2023 RMD will be calculated as if she did take the 2021 and 2022 RMDs. The 2021 RMD would have been the 12/31/20 balance of the inherited IRA divided by 28.7 – the life expectancy of a 56-year old under the old IRS Single Life Expectancy Table. The 2022 RMD would have been the 12/31/21 account balance divided by 29.6. The 29.6 is arrived at by "resetting" the life expectancy (determining the life expectancy of a 56-year old under the new IRS Single Life Expectancy Table (30.6) and subtracting one from that).

So, Zoey's 2023 RMD will be the 12/31/22 IRA balance divided by 28.6, the life expectancy that would have applied for 2022, subtracted by one. For 2024, a 27.6 life expectancy will be used, and so on. The fact that Zoey chose not to take RMDs for 2021 and 2022 is simply ignored.

The scenario illustrated here is subject to change when the IRS issues final RMD regulations.

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