ASK THE **ADVISERS**

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RMDs and Inherited IRAs

One thing many retirees calculate each year is the amount of required minimum distributions they must withdraw from their retirement accounts. On December 29th, 2022 Congress enacted the SECURE ACT 2.0 which pushed back the starting age of RMDs to age 73. However, the IRS announced last Friday that any IRA owners that turned 72 and inadvertently made a withdrawal in 2023 have until September 30th, 2023 to return the funds and avoid realizing the income this year.

Prior to the SECURE ACT, people who inherited IRAs from their parents were permitted to let the account grow over their lifetimes while only taking the required minimum distributions based on their age. Congress, which is always looking to increase tax revenue without explicitly raising taxes, figured that one way to increase revenue was to make the beneficiaries of inherited IRAs deplete the accounts more quickly, especially since tax rates are scheduled to increase in 2026.

The original SECURE ACT enacted, in 2019, did just that, requiring most non-spouse beneficiaries of inherited IRAs to deplete their accounts within 10 years and pay substantial taxes.

Most experts interpreted the new law to mean that a beneficiary could wait an entire 10 years before emptying the entire account. However, in early 2022, the IRS proposed a rule that stated that if you had inherited an IRA from someone who was already taking RMDs when they died, the beneficiaries would have to also take RMDs in years 1-9 and then deplete any remaining account value by the end of the 10th year.

The regulations are not final yet and the IRS announced that the beneficiaries of inherited IRAs do not have to take an RMD in 2023 but further guidance should be forthcoming. Depending on the size of the account, your income, your state of residence, your marital status, and your future projected income, it may result in less taxes due if you take more money out in the early years as opposed to waiting until year 10.

Source: Think Advisor