

CHIEF INVESTMENT OFFICE

Tax Alert 2024-05

IRS Again Provides Relief for Required Minimum Distributions for Certain Beneficiaries

April 2024

OVERVIEW

On April 16, 2024, the Internal Revenue Service (IRS) provided taxpayers with important guidance regarding required minimum distributions (RMDs) from retirement plans and IRAs. The guidance, issued in Notice 2024-35, provides relief with respect to certain provisions of the required minimum distribution rules that Congress changed as part of the SECURE Act. The Notice:

- Extends for one year (through 2024) the relief the IRS previously provided in Notices 2022-53 and 2023-54 (the “prior Notices”) (1) the effective date of pending final RMD regulations and (2) the IRS interpretation of the “10-year rule” outlined in proposed RMD regulations.

Extension of Relief Originally Granted in 2022 Notice

The Notice provides guidance related to certain specified RMDs for 2024. It also announces that the final regulations that the IRS intends to issue related to RMDs will apply for purposes of determining RMDs no earlier than 2025. Current tax laws provide complex rules for minimum distributions from retirement plans and IRAs during the life of the participant and after such person’s death.

Final RMD regulations—The Notice states that the pending RMD regulations are anticipated to apply for calendar years beginning on or after January 1, 2025.

10-year rule—The Notice provides another one-year extension (through 2024) of the relief in the prior Notices relating to the IRS’ interpretation of the 10-year rule under the SECURE Act. The IRS, in its 2022 proposed RMD regulations, interpreted the 10-year rule as requiring distributions to continue throughout the 10-year period (1) for certain beneficiaries (e.g., adult children) if the employee dies on or after their RBD, because the “at-least-as-rapidly” rule applies in addition to the 10-year rule in such case, and (2) following the death of an “eligible designated beneficiary” (EDB) (e.g., a surviving spouse) who is “stretching” the benefits they inherited from an employee who died before their RBD. Many taxpayers thought no distributions would be required during the 10-year period, regardless of when or how the 10-year rule is triggered.

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In the prior Notices, the IRS provided relief for taxpayers who did not interpret the 10-year rule as applying for 2021, 2022 or 2023. In the prior Notices, the IRS concluded that to the extent a taxpayer failed to take a “specified RMD,” the IRS would not impose a penalty that otherwise applies to RMD failures.¹ ***The new Notice extends this same relief to taxpayers (and plans) that adopted such an interpretation of the 10-year rule for 2024 and therefore the IRS will not assert a penalty for failing to take a specified RMD through the end of 2024.***

Not All Missed RMDs are Exempt from Penalties. Not all RMDs are covered by the Notice; only “specified RMDs” are covered. A “specified RMD” is any distribution that, under the 2022 proposed regulations’ interpretation of the 10-year rule, would be required to be made in 2021, 2022, 2023 or 2024 with respect to individuals described below:

- **Beneficiaries of deceased employees**—A designated beneficiary of an employee (including an IRA owner) if (1) the employee died in 2020, 2021, 2022 **or 2023** and on or after the employee’s RBD, and (2) the designated beneficiary is not “using the lifetime or life expectancy payments exception.”
- **Beneficiaries of deceased eligible designated beneficiaries**—A beneficiary of an eligible designated beneficiary if (i) the eligible designated beneficiary died in 2020, 2021, 2022 **or 2023** and (ii) that eligible designated beneficiary was “using the lifetime or life expectancy payments exception (i.e., the “stretch” exception).²

¹ If the amount distributed during a year to a payee under a retirement plan is less than that year’s required minimum distribution, then a penalty is imposed on the payee. For taxable years beginning after December 29, 2022, the penalty is equal to 25 percent of the amount by which the required distribution for a year exceeds the amount actually distributed in that year. If a failure to take a required distribution is corrected by the end of the correction window (generally, the end of the second year that begins after the year of the missed required minimum distribution), the penalty is reduced from 25 percent to 10 percent.

² For this purpose, an EDB includes a designated beneficiary who is treated as an EDB pursuant to section 401(b)(5) of the SECURE Act. That section provides that if an employee dies before the effective date of the SECURE Act (generally 1/1/2020, but two years later for governmental and collectively-bargained plans), and their designated beneficiary dies on or after that date, the beneficiary is treated as an EDB so that the 10-year rule applies upon their death. Thus, the Notice’s relief applies in cases where the successor to that deceased beneficiary failed to take an RMD in 2021, 2022, 2023 **or 2024**.

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Trusts Holding IRAs

The Notice does not specifically say there is no RMD required for 2024. It just says that the IRS will not assert that an excise tax (penalty) is due. This could have implications for trusts that hold IRA accounts. Trustees of such trusts should look to the specific language of the trust for guidance. A trust may instruct the trustee to take annual distributions from the IRA. In such case, failing to take an annual distribution could impact a trust beneficiary. Even without a direction to take annual distributions, a trustee may see a benefit to taking a distribution to mitigate income taxes.

— National Wealth Strategies, Chief Investment Office