Extension of Year-of-Death RMD

Take-Away: The designated beneficiaries of the decedent's IRA now have additional time in which to take the decedent's year-of-death *final* required minimum distribution (RMD.)

Background: The Final SECURE Act Regulations published in July provide some relief to beneficiaries who inherit a retirement account or IRA. We are all aware of the rule that requires an IRA owner to start taking requirement minimum distributions (RMDs) when he/she reaches the age 73. If the IRA owner dies when a RMD must be taken, yet the owner has failed to take that distribution before his/her death, the responsibility to take that *final* RMD then falls to the designated beneficiaries of the decedent's IRA to take the unpaid *final* distribution by the end of the calendar year, i.e., no later than December 31 of the year of the IRA owner's death. If there are multiple designated beneficiaries of the decedent's IRA, then any of the designated beneficiaries can take the unpaid balance of the decedent's RMD for the calendar year, as opposed to each of those designated beneficiaries being required to take a proportional share of the unpaid amount. Caution: The year-of-death RMD that is not paid to the decedent before his/her death is not paid to the deceased IRA owner's estate, unless their estate is the actual designated beneficiary of the IRA.

-Any Beneficiary: Since any of the designated beneficiaries of the IRA can take the unpaid RMD, some flexibility can be achieved in following this rule. For example, if a charity is named as one of the IRA beneficiaries, a distribution of the balance of the owner's year-of-death RMD could be paid to the charity in partial satisfaction of its share of the IRA, which could help relieve the other individual IRA beneficiaries from this unexpected income tax liability. Or, perhaps, one of the individual beneficiaries has cash needs greater than others. As such, there is some flexibility in implementing this year-of-death RMD distribution obligation and not all designated beneficiaries are required to take their proportionate share of the decedent's *last* RMD.

-Timing Problem: This rule that requires a named beneficiary to take the unpaid balance of the decedent's *last* RMD before the end of the calendar year poses practical problems. If the IRA owner died late in the year, with funerals, final arrangements, and grieving occupying the attention of the owner's survivors, those distractions often resulted in a missed *last* RMD taken by the designated beneficiary before December 31, which in turn triggered the 25% excise tax (or now 10% if timely corrected) for the failure to take a required minimum distribution (RMD.)

Final Regulations: The Final Regulations address this practical problem created by a late-in-the-calendar-year death by extending the time in which the beneficiary must take the deceased IRA owner's *last* RMD which he/she failed to take before their death. The Final Regulations extend the deadline for the beneficiary to take the decedent's *missed* RMD and be eligible for the automatic waiver of the penalty for the failure to timely take the decedent's *last* RMD.

-New Deadline: This new deadline by which the designated beneficiary must take the deceased IRA owner's *last* RMD is the later of the tax filing deadline for the taxable year of the beneficiary that begins with or within the calendar year in which the IRA owner died and *the end of the following calendar year.* In other words, for most designated beneficiaries, this means that that year of death RMD deadline when the unpaid RMD balance must be taken by the beneficiary is December 31 of the year after the IRA owner's death.

-Example: Greg, age 81, owns a traditional IRA. Greg names his grandson Charlie, age 21, as the designated beneficiary of Greg's IRA. Greg normally takes his RMD from his IRA on December 7 of each year. However, Greg died on November 30, 2024, without having taken his RMD from his traditional IRA for 2024. Under the basic rule, Charlie is responsible to take Greg's 2024 year-of-death RMD. Charlie is in college, studying and preparing for exams, and he also distracted by his grandfather's funeral and other responsibilities, such that Charlie fails to take Greg's *last* RMD by December 31, 2024. Under the new Final Regulations, Charlie is eligible for an automatic waiver of the 25% excise tax for his failure to take Greg's *final* RMD be December 31, 2024. Charlie will avoid all excise taxes imposed for the *missed* 2024 RMD if he takes the 2024 year-of-death RMD by December 31, 2025.

Conclusion: Often the erroneous assumption is made that the decedent, or the decedent's estate, must take and report the *last* RMD before his/her death. As noted, that responsibility falls not to the decedent to be reported on his/her final Form 1040, nor to the decedent's estate on Form 1041, but to the designated beneficiary of the decedent's traditional IRA. Fortunately, with the Final Regulations, that beneficiary will have more time in which to take that *final* RMD amount and avoid incurring the 25% excise tax for the failure to timely take that *final* RMD amount.

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