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IRS Releases Final Regulations on RMDs and the 10-Year Rule



The Internal Revenue Service recently issued final regulations related to the treatment of inherited retirement accounts. This update affects a wide variety of retirement accounts, including 401(k)s, 403(b)s, and IRAs.

These final regulations follow a lengthy review of public feedback on proposed rules that were issued in 2022.

Some of the most hotly disputed provisions of the proposed rules were related to required minimum distributions, called RMDs, and the ten-year rule. The rules regarding these specific provisions have been uncertain, pending the release of these final regulations.

In this document, we'll focus on the final rules for RMDs and the ten-year rule so you can ensure compliance and plan ahead.

SECURE Act changes: who does it affect?

The SECURE Act of 2019 and SECURE 2.0 Act of 2022 introduced several changes to retirement plans, including modifications to catch-up contributions, hardship withdrawals, and RMDs. One of the most notable changes was the ten-year rule for most inherited retirement accounts, which applies to individuals who are not considered “designated eligible beneficiaries.”

Eligible beneficiaries include surviving spouses, minor children, disabled individuals, and chronically ill individuals. Beneficiaries who are less than ten years younger than the deceased account holder are also considered eligible beneficiaries.

All other beneficiaries, including adult children of the account holder, will be subject to the ten-year rule for inherited retirement accounts.



What was the previous rule, and what will change?

Under the old law, heirs of inherited retirement accounts had to withdraw a certain amount of money each year. The amount depended on either the heir's remaining life expectancy or the original account holder's, whichever was longer. This allowed the heir to benefit from the account's tax-deferred growth over a long period of time.

The proposed regulations in 2022 introduced a requirement that inherited retirement accounts be fully distributed within ten years of the account holder's death if the heir isn't a designated eligible beneficiary. Additionally, if the account holder had already started taking RMDs before their death, the beneficiary would also be required to continue making RMDs while still being obligated to empty the account within ten years.

Final rules: key takeaways

After a public comment period, the IRS has released the final rules with some important clarifications on the proposed regulations:

First, the ten-year rule for non-eligible beneficiaries remains in effect, virtually unchanged from the proposed regulations. However, the final rules provide additional guidance on identifying eligible designated beneficiaries ensuring taxpayers understand who qualifies under each category. For instance, the guidance clarifies what it means for someone to be chronically ill or disabled, as well as who may be considered a minor child.

Second, beneficiaries are required to take RMDs if the original account holder had already started taking them before their death. However, the IRS has clarified that beneficiaries who would have been required to take RMDs between 2021 and 2024, but didn't, will not face penalties or be required to make up the missed distributions. This means the new regulation on RMDs will effectively start in 2025.



The final rules include many other provisions, however, most of them were not contested during the public comment period. These are just the highlights from the comprehensive final regulations document. Some questions still remain unanswered, and the IRS has released a new set of [proposed regulations](#) addressing some of the ambiguities of the SECURE 2.0 Act.



Next Step

Given the complexity and scope of these new regulations, it's wise to meet with a tax advisor to discuss if and how these rules may apply to your specific situation. If you are a beneficiary of a retirement account, one of our experts can provide tailored advice to ensure compliance and optimize the financial impact of required distributions.

For more information on these rules and other retirement planning guidance, please contact our office.



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