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for Advisors and CPAs
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Rules for Required Minimum Distributions

The tax code requires participants to take distributions from their qualified plans and IRAs at certain times. These are known as the required minimum distribution (RMD) rules. Congress made significant changes to the RMD rules in both SECURE 1.0 and SECURE 2.0. The IRS just released guidance on these new rules. These rules are complex, to say the least, but a few key takeaways include:

- If a participant dies after their required beginning date, their beneficiary will be required to continue taking RMDs at least annually ***and*** the entire amount must be distributed by the end of the 5 or 10-year period (as applicable). This rule was subject to significant controversy, and the IRS has issued relief for beneficiaries who didn't take RMDs during 2021-2024. This relief is almost certain to end now that final regulations have been issued and beneficiaries will be required to take these RMDs beginning in 2025.

- Participants are no longer required to take RMDs from designated Roth contributions held in a qualified plan. The guidance clarifies that the Roth balance is simply ignored when calculating the amount of a participant's RMD. The IRS has also proposed rules that would require the RMD to be taken from the participant's non-Roth balances (so that a participant could not use the Roth portion of the account to satisfy the RMD).

- The IRS clarified a number of rules that are applicable when a trust is a named beneficiary. Participants who have existing trust designations should review their strategies in light of these rules. The clarifications may also pave the way for more trust designations, so plan sponsors should ensure they have procedures in place to correctly administer these distributions.

The detailed guidance provides welcomed clarification and re-emphasizes the complexity of RMDs. Failure to pay an RMD timely can result in significant penalties and excise taxes. Plan sponsors should ensure plan procedures are updated timely to avoid future compliance issues, and an experienced TPA partner can help sponsors successfully navigate these RMD rules.

by Kelsey Mayo
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Kelsey's practice is focused in the areas of Employee Benefits and Executive Compensation. She works with business owners and HR executives to understand and manage employee benefits and executive compensation arrangements. She routinely represents clients before the Internal Revenue Service, Department of Labor, and Pension Benefit Guarantee Corporation and has extensive experience in virtually all aspects of employee benefit plans and executive compensation arrangements.

Reminders

- **September 15, 2024:** Deadline for calendar-year defined benefit plans to make required contributions to their plan trust.
- **September 15, 2024:** Deadline for defined benefit plans without a 2023 funding shortfall to meet minimum funding requirements for the 2023 plan year.
- **September 30, 2024:** Summary annual reports due to participants in calendar-year plans if Form 5500 filing deadline was not extended.