

WHO MUST TAKE THE YEAR-OF-DEATH RMD

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Required minimum distributions (RMDs) were waived for 2020 but they are back now for 2021. This includes the RMD for the year of death of the IRA owner. The rules for this RMD can be tricky. One question that comes up a lot is who must take this RMD.

It is an all-too-common scenario. An IRA owner has passed their required beginning date and is required to take an RMD for the year. However, prior to taking this RMD, the individual dies. Who must take this year-of-death RMD? This is an area of great confusion!

The answer is really pretty straight forward. If the year-of-death RMD was not already taken by the IRA owner, it must be taken by the beneficiary. It is not paid to the IRA owner's estate, unless the estate is named as the beneficiary. Due to the continued confusion on this point, the IRS confirmed this rule in regulations and in Revenue Ruling 2005-36. By law, the minute the IRA owner dies, the balance in the IRA belongs to the beneficiary, NOT the estate. The estate could have different beneficiaries than those listed on the IRA beneficiary designation form. The fact that the beneficiary does not have to withdraw the entire account the minute after the IRA owner dies does not make the account any less his. The beneficiary will also pay the tax on the year-of-death RMD. It will be reported on the beneficiary's personal tax return (Form 1040), NOT on Form 1041 (the estate's income tax return).

The SECURE Act changed many parts of the RMD rules, but it did not change the rule that requires the beneficiary to take the year-of-death RMD. If the beneficiary is one of the many beneficiaries now subject to the 10-year rule under the SECURE Act, that payout period would apply after the year-of-death RMD is satisfied.

Example: Carl, age 85, dies in 2021 without taking his 2021 RMD. His son, Jaden, age 60, is his beneficiary. Jaden, as the beneficiary of Carl's IRA, must take the 2021 RMD that Carl did not take prior to his death by December 31, 2021. The RMD

should not be paid to Carl's estate. Under the SECURE Act, Jaden will then be subject to the 10-year payout rule. The remaining funds in the IRA he inherited from his father must be paid out by December 31, 2031.

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