

# SECURE ACT REGS BRING NEW ROTH IRA ADVANTAGE

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Roth IRAs have always been a great retirement savings tool. While pre-tax retirement accounts allow tax deferred savings, a Roth IRA promises tax-free benefits. They allow you to receive years of earnings in retirement without tax consequences. Those tax-free distributions also have the side benefit of not increasing stealth taxes such as IRMAA surcharges and taxation of Social Security benefits. Add in the fact that a Roth IRA does not require RMDs during the owner's lifetime (unlike qualified plans and traditional IRAs), and it is easy to see the Roth advantage. The newly released SECURE Act regulations have added another benefit to the Roth IRA tax break list with their unexpected interpretation of the 10-year payment rule.

In the new regulations, the IRS has taken the position that when an IRA owner dies on or after their required beginning date and the 10-year rule applies, the account is also subject to annual RMDs. This surprising interpretation of the SECURE Act will affect a lot of IRA beneficiaries because most IRA beneficiaries will be subject to the 10-year rule under the SECURE Act and many IRA owners die when they are older and beyond their required beginning date. Now these beneficiaries are subject to the hassle of having to calculate annual RMDs during years one to nine of the 10-year period using tricky rules. They must take taxable distributions to avoid a hefty 50% penalty for missed RMDs.

Good news for Roth IRA beneficiaries! The IRS confirms in the regulations that all Roth IRA owners are considered to have died before their required beginning date. This means no annual RMDs from inherited Roth IRAs are required for beneficiaries subject to the 10-year rule. An inherited Roth IRA offers complete flexibility within the 10-year period and completely avoids the complicated RMD rules. And, best of

all, the Roth IRA can grow tax-free for ten years before any distributions are required.

**Example:** Rodney, age 75, dies in 2022. The beneficiary of his Roth IRA is his daughter, Rhianna, age 50. Rhianna will be subject to the 10-year rule, but she does not have to take annual RMDs. She can let the Roth IRA grow and accumulate tax-free earnings for ten years. The entire inherited Roth IRA must still be distributed by December 31, 2032, but it will be a tax-free distribution.

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