

AUTOMATIC WAIVER OF 50% PENALTY FOR MISSED YEAR-OF-DEATH RMD

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At this time of year, financial articles typically cover festive topics with creative holiday metaphors. “Stuff Your Stocking with These Year-End Retirement Tips” or, “Stay Off Santa’s Naughty List by Implementing These Great Planning Ideas.” Lighthearted and fun – albeit corny – such commentary is usually bright, cheerful and easy to read. As the year comes to a close, I’m sure I will include similar language in one of my upcoming articles.

This is not one of those articles.

Death does not care if it is the holiday season. Death does not care if you have an inflatable reindeer on your front lawn or if you have a menorah in the window. When death decides to visit, it will do so. And when death arrives, regardless of the time of year, it must be addressed.

For IRA owners subject to required minimum distributions (RMDs), death late in the year has typically resulted in a bit of a scramble. Beneficiaries need to confirm if the year-of-death RMD was already taken by the original IRA owner. If it was not withdrawn, beneficiaries have historically needed to get it paid out before the calendar turned. Prior to the SECURE Act proposed regulations (released this past spring), if the year-of-death RMD was not withdrawn by the end of that same year, there was a 50% penalty on the amount not taken.

Of course, there are ways to have the penalty waived if the missed RMD was due to reasonable cause. Beneficiaries can fill out IRS Form 5329 and indicate the missed RMD amount. They can submit a letter to the IRS explaining the situation and

promise the oversight will never happen again. However, before taking those steps, they must still withdraw the missed year-of-death RMD while jumping through all the normal hoops of transferring the account into whatever beneficiary IRA best fits their situation.

With the proposed SECURE Act regulations, it's less likely these missed RMD hoops will need to be navigated. Under certain circumstances, the rules grant an automatic waiver of the 50% penalty for a missed year-of-death RMD. This is incredibly helpful in situations when death arrives with only a few days remaining on the calendar. If the original IRA owner had yet to take his final RMD, the automatic waiver of the 50% penalty applies if that RMD is taken by the beneficiary's tax filing deadline, including extensions.

Example: Grampa Richie, age 79, has a traditional IRA. His grandson Max, age 25, is the beneficiary. Grampa Richie's annual RMD is normally paid on December 15. However, he dies on December 10, 2022. Grandson Max is responsible for taking the 2022 year-of-death RMD. However, with such a short time before year end, he misses the 12/31/22 deadline. Max is eligible for an automatic waiver of the 50% penalty if he takes the 2022 year-of-death RMD by his 2022 tax filing deadline, plus extensions.

Articles like this are often inspired by real-life events. I spoke to an advisor the other day who said his client just died. He and I walked through next steps and discussed the year-of-death RMD. It is a lousy conversation to have – at any time of the year. But death doesn't care.

Hopefully that family can find some peace this holiday season.

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