RMD Rules Have Changed-Do You Have to Start Receiving Payments from Your Retirement Plan?

Roger McEowen (roger.mceowen@washburn.edu) – Washburn University School of Law
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Overview

Taxpayers have numerous options for saving for retirement, whether working for an employer or self-employed. But, there are limitations that apply to how much can be deposited each year into a retirement account and other rules apply that specify when distributions from retirement accounts must begin. If distributions are not taken when they should, penalties can apply.

The rules can be tricky, and the Congress has modified the rules in recent years. One of those changes applies to some people and will require the beginning of distributions (a required minimum distribution (RMD)) from certain retirement accounts by April 1, 2023.

Rules involving RMDs from retirement accounts – it's the topic of today's post.

RMDs

Funds cannot be kept in a retirement account indefinitely. In general, distributions must be made from an IRA, SIMPLE IRA, SEP IRA, or retirement plan account when the account owner reaches age 72 (73 if age 72 is attained after Dec. 31, 2022). Normally, an RMD must be made by the end of the year. But, for those turning 72 during 2022, the first RMD may be made as late as April 1, 2023. This rule applies to IRAs, 401(k)s and similar workplace retirement accounts.

Note: For persons with a Roth IRA, funds need not be withdrawn during life. But the beneficiaries of the account are subject to the RMD rules. Designated Roth accounts in a 401(k) or 403(b) plan are subject to the RMD rules for 2022 and 2023. 2023 RMDs must be taken by April 1, 2024. However, for 2024 and later years, RMDs are no longer required from designated Roth accounts.

This April 1 rule only applies for the first year that an RMD is required. For later years, the RMD must be made by the end of the year – December 31. As a result, any taxpayer that received their RMD for 2022 in 2023 (on or before April 1 of 2023) must also receive their RMD for 2023 by the end of 2023. This means that both distributions will be taxable in 2023.

Employees. Individuals that are still employed by the plan sponsor, and who are not a 5 percent owner, may delay taking RMDs from workplace retirement plan until they retire, if the plan so allows. But, even those that are still employed must begin taking an RMD starting at age 72 from traditional IRAs, SEP, SIMPLE and SARSEP IRA plans.

Plans requiring an RMD. As noted above, RMDs are not required with respect to Roth IRAs. Likewise, for 2024 and later years, RMDs aren't required to be taken from designated Roth accounts. The RMD rules, however, apply to traditional IRAs, SEPs and Simple IRAs during the owner's life. RMDs are also required to be taken by owners of 401(k) plans, 403(b) and 457(b) plans.

Age change. While the rule as to when an account owner must start taking an RMD has been the year in which the owner reaches age 72, starting in 2023, the required RMD must begin for the year in which the account owner turns 73. In other words, for account owners that turned 72 in 2022, the first RMD must be taken by April 1, 2023, with the RMD computed based on the account balance as of the end of 2021. For those reaching age 72 in 2023, there is no RMD requirement for this year. Instead, the first RMD will be for 2024 because that will be the year in which the individual will turn 73. The first RMD for these persons must be taken by April 1, 2025.

Meeting RMD Requirements. The RMD requirement can be satisfied by withdrawing from multiple accounts – traditional IRAs, SEPs, SIMPLEs and SARSEPs. Withdrawals need not be taken from each account the owner holds. What is required is that the total withdrawals must be at least what the total RMD requirement.

Calculating the RMD. The IRS provides Publication 590 to assist in computing the RMD. Publication 590 contains RMD tables that are used to calculate the RMD. Basically, from the table an account owner will locate their age on the IRS Uniform Lifetime Table, find the "life expectancy factor" corresponding to their age, and then divide the account balance as of December 31 of the prior year by the current life expectancy factor. The computation is different if the account owner's spouse is the only primary beneficiary and is more than 10 years younger than the owner. In that instance, the IRS Joint Life and Last Survivor Expectancy Table (contained in Pub. 590) is used. The account owner's life expectancy factor is based on the ages of both the account owner and spouse. The formula, however, does not change.

For persons with multiple retirement plans, the RMD is to be calculated separately for each plan. But the RMDs can be combined, and the total amount withdrawn from a single plan or any combination of plans.

Conclusion

RMDs from retirement plans can be confusing, and for those with multiple accounts it's probably best to consult with a financial and/or tax advisor to help with determining the best withdrawal strategy.

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K-State Agricultural Economics | 342 Waters Hall, Manhattan, KS 66506-4011 | 785.532.1504
www.ageconomics.k-state.edu