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Required Minimum Distributions in the year of death

When a spouse, family member, or friend passes away, there are many steps to take in finalizing their legacy plan. One step that may get overlooked is satisfying the IRA owner's required minimum distribution (RMD) in the year they died. Remember, the Internal Revenue Code (IRC) mandates that IRA owners begin taking RMDs after turning 72 from all Traditional, SEP, and SIMPLE IRAs as well as from any qualified employer sponsored retirement plans (QRPs) left at a former employer. This regulation applies in the year of death as well.

If you are named a beneficiary, it is important you take any portion of the owner's RMD from all IRA(s) and former QRPs that you inherit, so that the IRC rules are met in the year of death. Failure to take RMDs on time or in the right amount may subject you to an IRS 50% excise tax for every dollar under-distributed. You may need to establish an Inherited IRA before you satisfy the owner's RMD. Generally, you will satisfy the QRP RMD before moving the asset to an Inherited IRA. As a beneficiary, distributions taken from the inherited retirement assets will avoid the IRS 10% additional tax for early or pre-59½ distributions (10% additional tax). This is because death of the IRA owner or plan participant is an exception to the 10% additional tax.

We know you will be dealing with many issues and want to provide you with information that focuses specifically on the IRC rules you need to understand in order to satisfy any RMDs due in the deceased's year of death.

Understand the RMD rules

- **IRA owner dies before their Required Beginning Date (RBD)**—The RBD is generally April 1 following the year the owner turns 72. If an IRA owner dies before their RBD, there is no RMD due. Roth IRA owners are considered to have died before their RBD and therefore, there is no RMD due.
- **QRP participant dies before their RBD**—The RBD is generally April 1 of the year following the year the QRP participant turns 72. However, RMDs may be deferred beyond age 72 if the plan allows, the participant is still employed, and not a 5% or more owner of the company. For those participants, their RBD is April 1 following the year they separate from that employer. If the participant dies before their RBD, there is no RMD due. Unlike Roth IRAs, designated Roth accounts are also subject to RMDs.
- **IRA owner dies after their RBD**—Any RMD that should have been taken by the deceased IRA owner in the year of death must be taken by the beneficiary(ies) before December 31 of the year of death. The beneficiary(ies) are responsible for only their portion of the RMD based on the percentage (e.g., 50%, 100%, etc.) of the IRA they inherited. They will owe ordinary income tax on any taxable portion of the distribution. At Wells Fargo Advisors,such distributions will generally need to be taken from your Inherited IRA.
- **QRP participant dies after their RBD**—Any outstanding RMD of the deceased QRP participant in the year of death must be taken by the beneficiary(ies) before December 31 of the year of death. The beneficiary(ies) are responsible for only their portion of the RMD based on the percentage (e.g., 50%, 100%, etc.) of the QRP they inherited. They will owe ordinary income tax on any taxable portion of the distribution. These distributions will generally need to be taken from the QRP.

- **Inherited IRA beneficiary dies**—Similarly, if a beneficiary dies and is required to take an RMD from their Inherited IRA, the responsibility to take the balance of the RMD, in the year of death, passes to the successor beneficiary of that account.

Year of death RMD examples

Below are hypothetical examples to better explain satisfying the RMD in the year of death.

Multiple beneficiaries' hypothetical example

Dan passed away in March of this year after his 80th birthday. His Traditional IRA balance at the end of last year was $500,000. Upon his death, Dan's beneficiaries, his children Jim and Jane, met with their Wells Fargo Advisors Financial Advisor.

In reviewing the IRA, it was determined that Dan had not taken this year's RMD, which amounted to $26,738. Jim and Jane as his primary beneficiaries will each receive 50% of the IRA.

By the end of this year, Jim and Jane established Inherited IRAs and each took a distribution of $13,369 (50% of $26,738) to satisfy their father's RMD. They will owe ordinary income tax but not the 10% additional tax.

Single beneficiary's hypothetical example

Tammy died in early May at the age of 76. Her RMD this year was $21,225 and she was taking monthly distributions of $1,769. So prior to her death she has received four distributions totaling $7,076. Her May distribution was cancelled since she died prior to the scheduled distribution date.

Her beneficiary, Lisa, meets with Tammy's financial advisor, Bruce. Bruce explains that Tammy has only satisfied part of her RMD for this year and Lisa, as beneficiary, must take the remainder which is $14,149. Lisa establishes an Inherited IRA and satisfies the remaining RMD from this Inherited IRA by year end. She will owe ordinary income tax but not the 10% additional tax.

Successor beneficiary's hypothetical example

Barbara inherited an IRA and began taking RMDs using her single-life expectancy in the year following the IRA owner's death to take advantage of the stretch IRA strategy. She was 64 in the year her RMDs began, and her single-life table divisor, found in IRS Publication 590-B, was 21.8. She died last year and left her Inherited IRA to her son, Damon.

Damon met with his financial advisor and established his Inherited/Inherited IRA. Since Barbara had satisfied her RMD in the year she died, Damon didn't have to take a distribution.

Talk with Wells Fargo Advisors

Please ask your Financial Advisor for additional information if you have questions on taking RMDs from your Inherited IRA or Inherited/Inherited IRA. At Wells Fargo Advisors, we strive to educate our investors and look forward to helping you and your family build your financial future.

With you every step of the way

Everyone has a different vision of retirement that requires a unique financial strategy. Wells Fargo Advisors can support you in your retirement planning process by providing the guidance needed to make informed choices. We will meet with you and help create a comprehensive plan that takes into account your complete financial picture. Your Financial Advisor will be with you every step of the way to meet to review your progress and adapt your plan as needed. Working together, we'll design and implement an investment plan that can help you live out your unique vision of retirement.

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