IRS INFORMATION LETTER ON ROTH IRA REQUIRED MINIMUM DISTRIBUTIONS

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Practices & Industries

Employee Benefits

In a recent informational letter, the IRS discussed the Internal Revenue Code's (the "Code") required minimum distribution rules for non-spousal death beneficiaries of Roth IRAs. A required minimum distribution ("RMD") is a minimum annual withdrawal that must be taken from an individual's retirement accounts based on specific triggering events. For employer-sponsored qualified retirement plans, IRAs, SIMPLE IRAs, and SEP IRAs, RMDs generally must begin when the plan participant or IRA owner reaches age 70½. RMD requirements also apply to beneficiaries after a plan participant or IRA owner's death. For Roth IRAs, however, RMDs are only required after the Roth IRA owner's death.

The RMD rules that apply to Roth IRAs after the owner's death are different for spouse and non-spouse beneficiaries. The recent informational letter specifically addressed non-spouse beneficiaries. For non-spouse beneficiaries, the RMD rules require distribution of the Roth IRA owner's full account either (1) in full within five years of the owner's death (i.e., the 5-year rule) or (2) over a period not longer than the beneficiary's life expectancy, beginning within one year of the owner's death (i.e., the life expectancy rule). A Roth IRA agreement can specify which option will apply or allow the owner or designated beneficiary to select one of the two options within a specific period of time. If the agreement does not specify or allow the owner or designated beneficiary to select an option, then the life expectancy rule will apply for the designated beneficiary. If there is no designated beneficiary, then the 5-year rule will apply. If RMDs do not start in a timely manner, the Code imposes a 50% excise tax on the amounts that should have been distributed.

The information letter specifically responded to an inquiry as to whether the failure to start RMDs within one year of death results in the 5-year rule applying and the life expectancy rule becoming inapplicable. The IRS explained that which distribution period applies is based on application of the rules outlined above, and is not impacted by whether the distributions actually begin timely under the applicable rule. (IRS Information Letter No. 2016-0071)