What Happens When You Miss a Required Minimum Distribution?

Presented by Warren Wealth Associates

The end of the year can be a busy time for everyone—coordinating holidays, traveling with family, or even just tying up loose ends at work. The last thing you want to hear in January from your tax professional or financial advisor is, “Oops, you missed your RMD last year.”

The Internal Revenue Service (IRS) requires eligible retirement account owners and beneficiaries to take required minimum distributions (RMDs) annually. This requirement applies to traditional, SEP, and SIMPLE IRAs as well as qualified plan accounts such as 401(k)s and 403(b)s. The first RMD must be taken by April 1 of the year following the year the retirement account owner reaches age 73[1], and even sooner for inherited IRA owners who are subject to RMDs.[2] Subsequent RMDs must be taken by December 31 each year.

Unfortunately, missing an RMD can be expensive; the IRS charges a 25 percent penalty on the amount not taken, which the agency calls an *excess accumulation*. In addition, you can’t leave the missed amount in the IRA; you’re still required to take the RMD as well, so you must recognize the taxes on the missed amount. The IRS allows the missed RMD to be satisfied within a certain correction window, and if this is done, the penalty may be reduced to 10 percent. The correction window is no more than two years, but could be less, so consultation with a tax professional is recommended.

For example, let’s say Steve had an RMD of $10,000 for 2023 that he failed to take before December 31. He now needs to distribute the missed amount *and* recognize the taxes. In addition, the IRS will charge him a penalty of $2,500 (25 percent) for failing to take the RMD in time. If he satisfies the RMD within the allowable correction window, the penalty is reduced to $1,000 (10 percent).

How Is a Missed RMD Corrected?

To fix the problem, Steve has to perform three steps:

1. Take the missed RMD as soon as possible.
2. File Form 5329 with his tax return. The IRS cannot realistically confirm that every eligible person took their RMD each year. (If you miss yours, it’s your responsibility to report the missed amount on your taxes using Form 5329.)
3. Optionally, ask the IRS to waive the penalty if he can give a good reason for missing the distribution. Applicants for a penalty waiver must attach a statement of explanation to Form 5329 detailing the circumstances of missing the RMD and the steps they’ve taken to correct it.

Things to Remember

Although the IRS may never find out about your missed RMD, if you’re ever audited or the IRS finds out in some other manner, you’ll be assessed the penalty at that time—plus the interest on that amount for all the years the penalty was delinquent. Those interest charges can really add up.

After completing and submitting the request to waive the penalty, wait for the IRS to respond. The waiting window on a response from the IRS can vary. According to retirement specialist and CPA Ed Slott, the IRS will typically respond within a few months. If you’ve received no response after three years, the agency has waived the penalty.

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[1] If the account owner turned age 70 1/2 before January 1, 2020, then RMDs must begin at age 70 1/2. If turned 72 before January 1, 2023, RMDs must begin at 72.

[2] An exception applies for IRA owners in their first RMD year. The first RMD may be delayed until April 1 of the year after reaching RMD age. This exception does not apply to inherited IRA owners.

The main point here is, make sure you don't miss your RMDs. If you do, use the IRS's straightforward process to plead your case and possibly have the penalty waived. Consultation with a competent CPA or tax professional familiar with this process is always a good idea.

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