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accounts. If you have any questions, don't hesitate to contact your tax and financial advisors.

Ken Berry • Mar. 13, 2023

Thanks to the new SECURE Act 2.0, a follow-up to the first SECURE Act passed in 2019, you may be able to postpone required minimum distributions (RMDs) from retirement accounts and pay a lower tax penalty if you mess up. These SECURE Act 2.0 changes take effect in 2023.

Background: Generally, you must begin taking RMDs from qualified plans and traditional IRAs (but not Roth IRAs) no later than April 1 of the year following the year you've attained a specified age threshold. Typically, you may take the first RMD in the year you reach the age threshold to avoid receiving two RMDs in the subsequent tax year. RMDs are taxed at ordinary income rates currently reaching as

regular income tax that is owed. Previously, the penalty was equal to a whopping 50% of the amount that should have been withdrawn (or the difference between the required amount and a lesser amount actually withdrawn). For example, if you failed to take a $10,000 distribution on time, the penalty by itself was $5,000—a pretty hefty sum.

For decades, the age threshold for beginning RMDs from qualified plans and IRAs was 70½. However, the first SECURE Act bumped up the threshold to age 72, beginning in 2020. Now SECURE Act 2.0 increases it again by another year—to age 73—for 2023 and thereafter. And the threshold is then scheduled to jump to age 75 in 2033 (barring any further legislation by Congress).

If you turned 72 in 2022 or earlier, you must continue taking your RMDs, as usual. However, if you’re turning 72 in 2023, you can choose to wait an extra year. For someone who turned age 72 in 2022, the deadline remains April 1, 2023.

What’s more, the new SECURE Act 2.0 significantly reduces the penalty for failing to take timely RMDs. It cuts the 50% penalty in half to 25% of the shortfall, beginning in 2023. Even better: The penalty drops all the way to 10% for retirement account owners who don’t take an RMD but correct their error in a timely fashion (i.e., within two years).

Finally, Roth accounts in employer-sponsored retirement plans like 401(k) plans will no longer have to take lifetime RMDs from these accounts, beginning in 2024. (Roth IRAs are already exempted from the requirement.)

These changes provide more flexibility and tax relief to owners of retirement accounts. If you have any questions, don’t hesitate to contact your tax and financial advisors.