How the SECURE Act 2.0 Changed RMDs

In the final days of 2022, Congress passed the SECURE Act 2.0, a new set of rules designed to help investors who wanted to contribute to retirement plans. Many of these changes were intended to give investors more flexibility and new ways to enhance their retirement strategies. It was a follow-up to the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, which was also an important piece of legislation aimed at helping investors save more effectively.

Both the SECURE Act and SECURE Act 2.0 have dozens of provisions, including new rules that may impact retirement. Here are a few things you might want to know about how the SECURE Act 2.0 changed required minimum distribution (RMD) rules and how qualified charitable distributions (QCDs) may fit into how you choose to take these distributions.

Remember, this article is for informational purposes only and is not a replacement for real-life advice. We encourage you to consult your tax, legal, and accounting professionals before modifying your retirement income strategy.

The SECURE Act 2.0 and Required Minimum Distributions

RMDs are the amount of money that investors must withdraw each year from certain retirement accounts. These withdrawals are taxed as ordinary income. You can begin taking penalty-free withdrawals at 59½ or earlier in some cases if you have experienced a qualifying life event.

In the past, retirement distributions were required beginning at age 70½. Under SECURE Act legislation, investors can wait until age 72 or age 73 if they turn 72 after December 31st, 2022.[1]

Forgetting to take these required distributions can come with penalties! The penalty was previously a 50% excise tax. Still, the SECURE Act 2.0 reduced that penalty to 25%, or 10%, if the minimum distribution oversight is corrected within two years and the proper paperwork is filed. In some cases, that penalty may be waived altogether if the account owner made a "reasonable error" and took documented steps to correct the oversight.[1]

The Qualified Charitable Distributions (QCD) Approach to Required Minimum Distributions

QCDs can offer an opportunity to support your favorite causes and manage your retirement income. They allow those who are obligated to take RMDs to donate those funds directly from specific retirement accounts to qualified charities without recognizing the distribution as taxable income.

Here's how it works: Individual retirement account (IRA) withdrawals are generally taxable, but QCDs are excluded from taxable income, meaning they do not increase your adjusted gross income. For some, this may be a strategy to consider when balancing supporting a charitable organization with managing taxes.

You must be at least 70½ years old to qualify for a QCD. The distribution can be made from an IRA. You can also donate from a SEP IRA or SIMPLE IRA as long as they are inactive, meaning that you've made no contributions to the account in the year the QCD is distributed. However, remember that 401(k)s and other non-IRA retirement vehicles do not qualify for QCDs.

To qualify for the tax- and penalty-free withdrawal of earnings, Roth IRA QCD distributions must meet a 5-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals can also be taken under certain circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

The maximum annual limit for QCDs is currently set at $100,000 for 2024, an amount that adjusts annually for inflation. Therefore, staying updated on the annual cap is important, as it can influence your donation strategy.

It's prudent to confirm the status of your chosen charity through the IRS Online Search Tool or by consulting a professional who can speak to the tax status of the organization. If you withdraw and then donate the funds, it does not count as a QCD and becomes taxable.

As with many financial strategies, your state may have specific rules impacting how QCDs are treated. It's vital to check with a tax professional about state-specific regulations.

A financial professional can help you take your RMDs or set up QCDs. In addition, if you have any questions or concerns about how the changes enacted by the SECURE Act or SECURE Act 2.0 might affect your retirement strategy, please don't hesitate to reach out. We're here to help you make the most of these updates and navigate your retirement strategy.

1. IRS.gov