Casey Mullooly:

In episode 312, we take a break from the madness of the market and talk about what is required of you as an investor. Welcome back to the Mullooly Asset Show. I'm your host, Casey Mullooly, back with you here for episode 312. So we got some guidance from the IRS this week. I know, everyone's favorite topic. Everyone's dying to know what the IRS is talking about, but it answered an important question for us financial planners and tax professionals, and that is, if you inherited an IRA in 2020 or 2021, do you have to take a required minimum distribution this year? And the answer is no. So to give some background on this question, the rules changed for inherited IRAs or beneficiary IRAs in 2020. If someone passed away and you were the beneficiary on that account, you inherited their IRA, you now have a beneficiary IRA. You used to be able to take distributions, required distributions, from that account over your life expectancy, stretch it out over a longer time horizon.

But the Secure Act changed that in 2020, which forced those beneficiaries to take it over a 10 year time horizon rather than their whole life. But that rule hasn't really gone into effect yet as evidenced by their guidance that I mentioned earlier. We'll see what 2023 brings and definitely keep you updated. I know you're all probably dying to find out that information. But some other things to consider with required minimum distributions. We are in the fourth quarter here in mid-October of 2022, and if you have a 401K or an IRA and are required to take a minimum distribution, you have to get that done before the end of the year here. That's something that we are taking care of for our clients and are communicating with them about if it hasn't been taken already.

So two things to consider, if you are required to take a minimum distribution this year, the first thing is that it is based on the value of the account as of December 31st of last year. The market is down from where it was at this time last year so the account value is probably down as well, so it might feel like you're taking a bigger chunk out of that account, but it's all going to work its way out because next year's RMD is going to be based on the value at the end of this year and if the market doesn't rally, then it'll balance itself out next year. Second thing to consider is it's a required minimum distribution. It's not required minimum spending. Tom and I did a podcast on this a couple of weeks ago talking about some things you can do with that distribution.

You can journal it to another investment account and reinvest that money and continue to let it compound, or you can take the distribution. You have to pay tax on it either way. That's the whole idea. This money has grown tax deferred and now Uncle Sam wants his cut. You have to pay tax on it. But if you take the distribution, pay the tax on it, and then you can replenish your cash reserves, replenish that emergency fund. I know spending this year is probably up with inflation so maybe you need a little extra wiggle room there, and this RMD can help you out. But, again, required minimum distribution, not required minimum spending. Last week we did a video on what investors under 50 should be considering this week. I'm talking about RMDs, which are for folks in their 70s. Well, what about that bracket in between? What about the 50 to 70 year old? What should they be considering?

Well, one thing to consider to prepare for RMDs, they are inevitable, you do have to pay tax on it eventually, but one thing you can do is a Roth conversion, which is basically you accelerate the tax bill. It's still happening either way, but if you are in a lower tax or you need to fill up your tax bracket, you can take some of those pre-tax dollars, convert it into a Roth IA, let it continue to grow, and then when you take it out down the road, you won't have to pay tax on it then. Something to consider. There's more nuance there. There's a lot of tax implications and things you want to get right when you're considering something like a Roth conversion. But get in touch with us. This is all things that we're considering and talking about with clients. And if you need help, we'd be more than happy to help you get situated with anything involving your required minimum distribution. That is the message for episode 312. Thanks as always, for tuning in. We'll be back with you for 313. See you then.