

Correcting a Missed RMD

IRA owners who miss an RMD can correct the error if they take the proper steps

Missing a Required Minimum Distribution from a retirement plan or IRA can result in a 50% tax. Fortunately, the IRS offers a way for IRA owners to request a waiver of that tax.

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Saving in a retirement account such as an IRA, 401(k) or other similar vehicle can provide years of tax-deferred growth. However, that tax deferral doesn't last forever. Eventually, owners of these accounts – or beneficiaries of deceased account owners – must begin withdrawing funds under the Required Minimum Distribution (RMD) rules. However, despite the best intentions of the account owner, there are times when an RMD is calculated incorrectly – or even worse, missed completely. The IRS refers to this as an “excess accumulation”, and these aren't treated lightly – a 50% tax is imposed on the undistributed-amount. This penalty is calculated on IRS Form 5329 (www.irs.gov/pub/irs-pdf/i5329.pdf).

However, all is not lost when it comes to this penalty. The instructions to this form explain that the IRS is willing to waive this penalty if the missed RMD was due to “reasonable error”. And fortunately, the process for requesting this waiver is relatively simple.

CORRECTING THE ERROR

The instructions for Form 5329 (www.irs.gov/pub/irs-pdf/i5329.pdf, page 8), explain that in order for the IRS to waive the 50% tax, the IRA owner must be “taking reasonable steps to remedy the shortfall”. As soon as the owner discovers the error, the first thing they should do is withdraw the undistributed amount. Unlike the process for correcting other IRA errors, however, owners are not required to withdraw any earnings attributable to the missed RMD – just the RMD amount itself.

The trustee for the IRA will treat this as a normal IRA distribution and will issue the owner a Form 1099-R for the year of the distribution. The owner should report this income as taxable in the year the actual distribution occurred, regardless of what year the distribution should have been made.

REQUESTING A WAIVER OF TAX

Requesting a waiver of the 50% tax is done by completing IRS Form 5329, and IRA owners must use the version of the form that was issued for the year the RMD was missed. For example, if the RMD error occurred in 2018, the 2018 version of Form 5329 must be filed. If there were errors over multiple years, a separate Form 5329 should be filed for each year there was an error, using the form for that year. Prior year tax forms are available at www.irs.gov/forms-pubs/prior-year. In most cases, this form must be filed as part of an amended tax return for the year the distribution should have been made. However, if a tax return wasn't previously filed for that year and there are no other changes to be made, the Form 5329 can be submitted on its own.

Federal Health Insurance Exchange Enrollment, *continued*

Part IX of Form 5329 is used to report missed RMDs that are otherwise subject to the penalty, and this part is also used to request the waiver. The form instructions direct taxpayers to take the following steps:

- Report the full RMD amount that was supposed to have been withdrawn on Line 52.
- Report the amount that was actually withdrawn before the end of that tax year on Line 53.
- In the space next to Line 54, the IRA owner should show the amount of the missed distribution they are requesting the waiver on. Next to that the owner should write "RC".
- Line 54 should then equal Line 52 (the required distribution) less Line 53 (the amount correctly taken in that year) less the amount to the side of Line 54 (the requested waiver amount). This remaining amount, if any, will still be subject to the 50% tax.
- Line 55 will be the 50% tax owed on whatever amount remains on Line 54.

For example, say an IRA owner was required to withdraw \$25,000 from their IRA, but only withdrew \$20,000 during the applicable tax year. Upon discovering the error, the IRA owner withdrew the remaining \$5,000 and filed Form 5329 for the year of the missed withdrawal. They would complete Part IX of the form as shown below:

Part IX Additional Tax on Excess Accumulation in Qualified Retirement Plans (Including IRAs). Complete this part if you did not receive the minimum required distribution from your qualified retirement plan.			
52	Minimum required distribution for 2018 (see instructions)	52	25,000
53	Amount actually distributed to you in 2018	53	20,000
54	Subtract line 53 from line 52. If zero or less, enter -0-	54	0
55	Additional tax. Enter 50% (0.50) of line 54. Include this amount on Schedule 4 (Form 1040), line 59, or Form 1040NR, line 57	55	0

In addition to completing Part IX as shown, the instructions also say the IRA owner should attach a statement explaining the situation. The IRS instructions don't provide specific guidance on what should be in that statement, but suggestions include:

- A statement saying they are requesting a waiver of the Additional Tax on Excess Accumulations related to a missed Required Minimum Distribution.
- A statement explaining why the RMD was missed (health emergency, advisor error, etc.)
- The year for which the RMD was missed and the amount that was not withdrawn.
- The date on which this was first noticed.
- A statement that a corrective distribution was taken immediately, and the date on which that happened.