

Reduces Required Minimum Distribution Penalty

Reduces the penalty for failure to take RMDs



On December 29, 2022, President Biden signed into law the SECURE 2.0 Act of 2022 (SECURE 2.0). This occurred as part of the passage of the Consolidated Appropriations Act, 2023, a federal government spending package. The [SECURE 2.0 Guide](#) provides a high-level summary of the key defined contribution and defined benefit plan provisions for workplace retirement plans. This article provides additional information on the **Reduces Required Minimum Distribution (RMD) Penalty** provision and considerations for plan sponsors and participants.

SECURE 2.0 Section # 302- Reduces RMD Penalty

Plan types affected	Defined Benefit, 401(a) PS, 401(k), MP, 403(b), Gov't 457(b), Non Gov't 457(b)
Mandatory or Optional	Mandatory
Effective dates	Taxable years beginning after December 29, 2022
Overview	Reduces the penalty for failure to take RMDs
What has changed?	<p>Reduces the penalty from 50% to 25% of the underpayment. However, the penalty for a missed RMD is reduced to 10% if the correction is made within the correction window, which begins on the date on which the tax is imposed and ends on the earliest of:</p> <ul style="list-style-type: none">• the date of mailing a notice of deficiency,• the date on which the tax is assessed, or• the last day of the second taxable year that begins after the end of the taxable year in which the tax is imposed.

How does this affect plan sponsors?

It is important that plan sponsors are aware of this change and the effect that it will have on participants and beneficiaries. The excise tax is imposed on the participant or beneficiary, however, if the plan sponsor failed to make the RMD to a participant or beneficiary who was subject to an excise tax, the participant or beneficiary might be seeking remediation from the plan.

How does this affect participants and beneficiaries?

This change provides some relief for participants and beneficiaries who fail to receive their RMDs in a timely manner and are subject to the 50% excise tax. The individual must file a return within the correction window and report the amount of the underpayment and excise tax. Despite the reduced excise tax, an individual can still file IRS Form 5329 (Additional Taxes on Qualified Plans (Including IRAs and Other Tax-Favored Accounts)) and request a reasonable cause waiver of the excise tax from the IRS.



Key takeaways

Participants may have questions for plan sponsors regarding this provision and Fidelity is committed to helping plan sponsors effectively communicate this change.

Additional guidance needed – The IRS must update IRS Form 5329 for the change to be administered.



Next steps

Individuals are required to report this information to the IRS when they file their Federal income tax return.

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