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IRS ANNOUNCES 50% TO 100% INCREASES IN EARLY IRA DISTRIBUTIONS

The IRS released Notice 2022-6 on January 18, 2022. It replaces Revenue Ruling 2002-62, which for twenty years was the seminal IRS rule book on early IRA and 401(k) distributions.

Taxpayers under the age of 59 ½ were required to follow detailed rules found in Ruling 2002-62; the most onerous of which were extremely low interest rate assumptions, often under 1% over the last several years. The big change — Notice 2022-6 now permits an interest rate of 5% which has dramatic effect on annual distributions.

Example: Under old rules, a 50 year old with an IRA valued at \$500,000 was looking at an annual amount near \$15,134. Under new rules, the distribution jumps upward to \$30,156; just a touch short of a 100% increase.

The new rule book is optionally available for use immediately — no waiting and becomes mandatory on January 1, 2023. Rules for taxpayers who have already launched early distribution plans are more complex but are generally more favorable.

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