Tax Free Strategies **BRIEFS**

IRA Required Minimum Distributions

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February 2011

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What are Required Minimum Distributions?

If you have a Traditional Individual Retirement Account (IRA) or have retirement money in an employer plan, you are required to begin Required Minimum Distributions (RMDs) no later than April 1 of the year after you reach age 70½ (or anytime after your turn 70½.) . If you are still working after 70½ that qualified plan is exempt from RMD. *Roth IRAs are not required to make minimum distributions.*

> ***TAX TIP**: Why are RMD's Important? The key to any investment strategy is building wealth. If your portfolios are invested wisely the key would be to take a little as possible from tax sheltered IRAs allowing them to grow. If you do not have to exceed your RMD, this will leave more money for yourself and your family in the future. There are other reasons to plan your distributions, including swings in other income sources or a change in tax rates.*

Distributions are calculated by IRS Rules, so you must adhere to their exact formula. The formula to calculate your RMD is quite easy. All IRA balances are added together on December 31st and divided by a Uniform Life Expectancy Table (See table to the right). That is the minimum amount to be withdrawn in the next year. However, you can always withdraw more than the minimum amount. Also, you can take your RMDs in installments versus one lump sum. Distributions received from a Traditional IRA are taxed as ordinary income based on your marginal tax rate.

EXAMPLE: Bob turns 70 years old in March 1, 2011; therefore, he is required to take his RMD anytime after September 1 but before April 15, 2012. If he decides to take the RMD in April of the following year, he is still required to take another RMD in 2012. In 2012 he would have 2 IRA distributions.

EXAMPLE CALCULATION: Bob has multiple IRAs valued at $125,000 at December 31, 2010. Bob is 70 years old at year end. Going to the table on the right, Bob's first RMD would be $ $4,562.04 ($125,000 divided by 27.4). If Bob would have a spouse that is 10 years younger than him, he can use a more favorable life table called the Joint & Last Survivor Table.

RMDs are a necessary requirement in today's tax code, but with the rise in ROTH IRA's, they may not be as prevalent in the future.

> ***TAX WARNING**: If you withdraw less than the RMD, you will be subject to a federal penalty. The IRS penalty is an excise tax equal to 50% of the amount that should have been withdrawn. This penalty is in addition to ordinary income at the individual's marginal rate & any state income taxes.*

RMD TABLE

Life Expectancy	AGE
27.4	70
26.5	71
25.6	72
24.7	73
23.8	74
22.9	75
22.0	76
21.2	77
20.3	78
19.5	79
18.7	80
17.9	81
17.1	82
16.3	83
15.5	84
14.8	85
14.1	86
13.4	87

This Table Continues until age 115—Please go to Publication 590 to see the extended table

What happens if you Inherit an IRA? These rules are extremely tricky. Unless you're the spouse of the beneficiary, you will be subject to RMD rules on the inherited IRA. Please consult your tax advisor and IRS Publication 590.

- If you are a spousal beneficiary, You can transfer the existing IRA into your name and defer distributions until you are required to take the RMD. Or you can also choose to open an Inherited IRA if you plan to take a distribution before you reach age 59 ½.
- If you are a non-spousal beneficiary, you cannot roll the inherited IRA to your own. You have transfer it to a new Inherited IRA. If the IRA owner dies before distributions have begun, the following rules will generally apply—**Rule 1.** The entire account must be distributed by December 31 of the fifth year following the year of the owner's death or **Rule 2**. Distribution will occur over the life of the designated beneficiary or a period not extending beyond the expectancy of the designated beneficiary. Many times this is called the Stretch IRA because a younger beneficiary can stretch the IRA over their lifetime.
- If the IRA owner was over 70½ at death, the beneficiary will have to take the remaining distributions using the deceased IRA owner's life expectancy.
- If you designate a Trust as the beneficiary, typically you will have to distribute over the life expectancy of the oldest beneficiary.