

Q & A: Planning for required IRA withdrawals

There's a fundamental rule that applies to tax-favored retirement plans such as IRAs: At some time tax deferral must end and distributions begin. To put teeth into the command that retirement assets must be exposed to tax, the tax code contains provisions for taking "required minimum distributions" (RMDs) from your IRA. Here are some answers to questions that you are likely to have about the RMD rules.

When must RMDs begin?

Required minimum distributions (RMDs) must begin when you reach age 70 1/2, with the first distribution received no later than April 1 of the following year. In subsequent years you must receive your RMD by December 31 each year. If you do decide to wait until April 1 for your first RMD, you still must receive another RMD by December 31 of the same year.

What if I don't take an RMD, or I don't take enough?

In any year that you fail to take an RMD, or take less than the full required amount, you will owe a penalty tax equal to 50% of the shortfall, in addition to the regular income tax.

How is an RMD figured?

The IRS furnishes tables to determine your RMDs. Generally, most IRA owners use a "Uniform Lifetime Table." But if your spouse is the sole surviving beneficiary of your IRA, and is more than ten years younger than you for the entire calendar year, you should use the "Joint Expectancy Table" to figure your RMD. It will result in a smaller RMD than the uniform table.

Can you give me an example of how much an RMD is?

To calculate your RMD, you take your age and find the corresponding distribution period listed in the table, then divide the value of your IRA at the close of the prior tax year by the distribution period. For simplicity's sake, let's say that at age 70 the value of your IRA on

December 1 of the prior year was exactly \$100,000. The distribution period in the table is 27.4 years. Your RMD, then, is about \$3,650.

Where do I find the tables?

Appendix C of IRS Publication 590 (*Individual Retirement Arrangements*) has the tables. And the trustee of your IRA rollover should be able to provide copies of the tables to you as well.

Is tax withheld from RMDs?

Withholding rules do apply, but you can elect not to have tax withheld. But if you do elect not to, the RMD amount must be included in your taxable income when you file your annual income tax return. You also may owe state or local taxes on your RMD.

May I take more than the RMD?

Absolutely. The benefit of taking only the RMD is that you are keeping more of your money (and the income that it earns) from being taxed currently. But taking more than the minimum in one year doesn't mean that you can take an amount less than the full RMD in a later year.

May I roll over an RMD to another tax-deferred account?

No. RMDs are not eligible to be treated like distributions from a company retirement plan that may be rolled over to an IRA or another employer plan.

Must I take RMDs from a Roth IRA?

No. There is no requirement that you receive distributions from your Roth IRA during your lifetime. But they are subject to the RMD rules after your death.

If I have more than one IRA, do I need to take an RMD from each of them?

No. The amount of the RMD from each of your IRAs must be calculated separately, and the separate amounts totaled. But the total may be withdrawn from one or more of your IRAs in whatever amount that you choose.

Is help needed?

Although many of the rules have been simplified over the years, the subject of required IRA distributions is complex for anyone who is not a specialist in the field. Therefore, if you will need to figure your RMD yourself, seeking professional assistance may be critical, especially if you have a large balance.

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