Have You Taken Your Required Minimum IRA Distribution?

Article Highlights:

- Required Minimum Distributions
- When the Distributions Must Begin
- RMD Distribution Tables
- Figuring the Amount of the Distribution
- IRA-to-Charity Transfers

As year-end approaches, this is a good time to make sure you have taken your required minimum distribution (RMD) for 2015.

What is an RMD, you ask? The tax code does not allow IRA owners to keep funds in a traditional IRA indefinitely. Eventually, assets must be distributed and taxes paid. If there are no distributions, or if the distributions are not large enough, the IRA owner may have to pay a 50% penalty on the amount not distributed as required.

Generally, required distribution begins in the year the IRA owner attains the age of 70½. If 2015 is the year you reached 70½, you can avoid a penalty by taking that distribution no later than April 1, 2016. However, delaying the first distribution means you must take two distributions in 2016, one for 2015, when you reached age 70½, and one for 2016. If an IRA owner dies after reaching age 70½ but before April 1st of the next year, no minimum distribution is required because death occurred before the required beginning date. If you became 70½ in an earlier year, you are required to take a distribution no later than December 31 of each year.

The amount you are required to withdraw is based upon the value of the IRA account on December 31 of the prior year multiplied by your life expectancy from the Uniform Lifetime Table illustrated below. If you have more than one IRA, the RMD for each one is figured separately, but you may add up all the RMDs and take the total amount required for the year from any one or a combination of the IRAs.

UNIFORM LIFETIME TABLE

Age	Life	Age	Life	Age	Life	Age	Life	Age	Life
70	27.4	80	18.7	90	11.4	100	6.3	110	3.1
71	26.5	81	17.9	91	10.8	101	5.9	111	2.9
72	25.6	82	17.1	92	10.2	102	5.5	112	2.6
73	24.7	83	16.3	93	9.6	103	5.2	113	2.4
74	23.8	84	15.5	94	9.1	104	4.9	114	2.1
75	22.9	85	14.8	95	8.6	105	4.5	115	1.9
76	22.0	86	14.1	96	8.1	106	4.2		
77	21.2	87	13.4	97	7.6	107	3.9		
78	20.3	88	12.7	98	7.1	108	3.7		
79	19.5	89	12.0	99	6.7	109	3.4		

Not illustrated, because of the size, are the Joint and Last Survivor Table, which is used to determine RMDs when the sole beneficiary is a spouse who is more than 10 years younger than the IRA owner, and the Single Life Table, used for certain beneficiary RMD determinations. For table values not illustrated, please call this office.

> ***Example:*** *The IRA account owner is age 75 in 2015, and the value of his IRA account on December 31, 2014, was $120,000. His 73-year-old wife is the sole beneficiary of the IRA. From the table, we determine the owner's life expectancy to be 22.9. Thus his RMD for 2015 is $5,240 ($120,000/22.9) and must be withdrawn no later than December 31, 2015.*

If in the preceding example the taxpayer had not withdrawn the $5,240, he would be subject to a 50% penalty (additional tax) of $2,620 ($5,240 x 50%). Under certain circumstances, the IRS will waive the penalty if the taxpayer can demonstrate reasonable cause and makes up the withdrawal soon after discovering there was a shortfall in the distribution. However, the hassle and extra paperwork involved in asking the IRS to waive the penalty makes it something you want to avoid by taking the correct amount of distribution timely. Some states also penalize under-distributions.

There is no maximum limit on distributions from a Traditional IRA, and as much can be withdrawn as the owner wishes. However, if more than the required distribution is taken in a particular year, the excess cannot be applied toward the minimum required amounts for future years.

Prior to 2015, there was a provision of the tax code that allowed a taxpayer to use up to $100,000 of IRA funds to contribute to a charity by directly transferring the IRA funds to the charity via a trustee-to-charity transfer. In doing so, (1) the transfer counted toward the RMD requirement, (2) the amount transferred did not have to be reported as income, and (3) no charity deduction was claimed. The advantages of that provision allowed a taxpayer to take the standard deduction and still benefit from the charitable donation. It also kept the IRA distribution from being included in the taxpayer's AGI, potentially causing less of their Social Security income to be taxed and reducing the effect of higher AGI phaseouts. **NOTE: There is a chance that the provision will be extended, so to achieve any tax benefit from it, you would need to act now as if it were in effect.**

Even though an IRA owner whose total income is less than the return filing threshold is not required to file a tax return, he or she is still subject to the minimum required distribution rules and could be liable for the under-distribution penalty even if no income tax would have been due on the under-distribution.

In many cases, advance planning can minimize or even avoid taxes on Traditional IRA distributions. Often, situations will arise in which a taxpayer's income is abnormally low due to losses, extraordinary deductions, etc., where taking more than the minimum in a year might be beneficial. This is true even for those who may not need to file a tax return but can increase their distributions and still avoid any tax. If you need help with planning, please call this office for assistance.