Planning Your IRA Withdrawal?

Article Highlights:

- Early Distributions
- Distributions After Age 59.5
- Minimum Required Distributions After Age 70.5
- Excess Accumulation Penalty
- Estate Tax Issues

Advance planning can, in many cases, minimize or even avoid taxes on IRA distributions and other qualified plan distributions. When contemplating future retirement and when to begin tapping taxable IRA and other qualified retirement accounts, taxpayers need to consider a number of important issues.

Early Distributions (before 59.5) - If funds are withdrawn before reaching age 59 ½, the taxpayer is also subject to a 10% early withdrawal penalty (and state penalties if applicable) in addition to the income tax on the IRA distribution, unless what is referred to as the substantially equal payment exemption is utilized. Under this exception, an early retiree can begin taking substantially equal payments at least once a year over the owner's life or joint lives of the owner and designated beneficiary. The payments must not cease before the end of the five-year period beginning with the date of the first payment, BUT after the taxpayer reaches age 59.5.

Age 59.5 to age 70.5 Distributions – After attaining age 59.5, an individual can take out of their IRA as much or as little as he or she wishes in any year until reaching age 70.5. This withdrawal liberty leaves the retiree to plan his or her distributions to minimize taxes. Techniques involve matching distributions with no- or low-income years.

Age 70 ½ and Older – Once a taxpayer reaches age 70 ½, he or she must withdraw at least a minimum amount from their Traditional IRA each year. A taxpayer who fails to take a distribution in the year age 70 ½ is reached, can avoid a penalty by taking that distribution no later than April 1st of the following year. However, that means the IRA owner must take two distributions in the following year, one for the year in which they reached age 70 ½ and one for the current year. Distributions that are less than the required minimum distribution for the year are subject to a 50% excise tax (excess accumulation penalty) for that year on the amount not distributed as required. The excess accumulation penalty can generally be abated by following IRS abatement procedures.

Quite frequently, taxpayers have multiple IRA accounts in addition to one or more types of other retirement plans. This gives rise to a commonly asked question, "Must I take a distribution from each individual account?" For purposes of the annual required minimum distribution, a separate distribution must be taken from each type of plan. However, a taxpayer may have multiple accounts for each type of plan, which for tax purposes are treated as one plan. For example, if you have three IRA accounts, the three separate accounts are treated as one for tax purposes, and the distribution can be taken from any combination of the accounts.

Generally, the minimum amount that must be withdrawn in a particular year, after reaching age 70 ½, is the total value of all IRA accounts (as determined on December 31st of the prior year) divided by a factor based on the owner's age from the table below, illustrated for ages 70 – 87 only (the complete table goes to age 115 and over).

Minimum Distribution Table

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

Estate and Beneficiary Considerations – When planning your distributions, keep in mind that the value of your undistributed IRA account will be included in your gross estate when you pass on, and depending upon the size of your estate, it may be subject to inheritance taxes. In addition, the inherited IRA distributions will be taxable to the individual who inherits the IRA. Therefore, it could be appropriate to utilize the IRA funds first and then dip into other assets after the IRA funds have been depleted. On the other hand, funds left in an IRA do continue to accumulate tax-free which might be better in certain circumstances.

If you would like assistance with your tax planning needs or to develop an IRA distribution plan, please call this office for an appointment.