Understanding IRA RMDs
(Required Minimum Distributions)

Anthony T. Newman,
President & CEO
Lifeguard Financial

The December 15, 2015 issue of *Financial Planning* published information regarding IRA and all pre-tax investments' Required Minimum Distributions (RMDs). Apparently there are common errors made by accountants, advisors and investors. IRS penalties are harsh – 50% on all missed RMDs!

In an easy to understand format, I will attempt to give you an understanding of the rules and clear up the confusion.

First Year RMDs:

Use the balance of your IRA of December 31st of the year prior to your turning 70-1/2. You have until April 1st (not the 15th) following your first distribution year to take the withdrawal. If you do, your second RMD must be taken by December 31st of the same year. All future RMDs must be taken by December 31st.

If you miss an RMD, make it up immediately and file Form 5329 with the taxes owed and request that the penalty be waived. The IRS may waive penalties for missed RMDs due to health issues or mistakes made by financial advisors, bankers or financial institutions.

Multiple Accounts Subject to RMDs:

Categorize you IRAs – all IRAs should be together with SEPS and Traditional and Simple IRAs. Keep Roth IRAs and Inherited IRAs separate. The RMD for each IRA should be calculated separately, but the total RMD for the group can be taken from any one or combination of IRAs in that group. However, you cannot satisfy an RMD from a company plan or vice-versa. Each company's plan must be taken from that plan only.

Company Plan RMDs (401(k), 403(b), etc.):

RMDs are still due by April 1st unless you are still working for the company where you have the plan.

Exception: If you don't own more than 5% of the company, you can delay your first

(see other side)

RMD until April 1st following the year you are separated from service. This does not apply to your IRAs if you are still working or to your 401(k)/ 403(b) if you are no longer working for the employer.

Exception: If you have a pre-1987 403(b), there is a grandfather rule that allows you to delay RMDs until 75. You must provide a statement showing the balance as of December 31, 1986. The RMD applies to all other amounts in the plan **including earnings on the pre-1987 balance.**

Inherited IRAs:

Inherited Traditional IRAs and Inherited Roth IRAs can be combined if they are from the same decedent. Several Roth IRAs can be combined too. Inherited IRAs and Inherited Roth IRAs are subject to RMDs. The 50% penalty applies to Roth IRAs even if the RMDs are tax-free.

Exception: If there is more than one beneficiary, the inherited IRA must be split by the end of the year in order for each beneficiary to take advantage of the Stretch IRA based on their own life expectancy. If it is not done by year end, then the RMDs will be based on the age of the oldest beneficiary – forcing younger beneficiaries to withdraw more. A non-spouse beneficiary cannot do a rollover, only a direct transfer. When titling the account, include the name of the deceased IRA owner and identify the account as “Beneficiary IRA”.

Year of Death RMDs:

RMDs must be taken in the year of the death by the owner. If it was not, the beneficiary must take it and report it on his/her tax return – not the decedent’s final tax return (Form 1040) nor on the decedent’s estate tax return (Form 1041). The amount of RMD needed is based on the deceased’s life expectancy (not the beneficiary’s). The year following the death, the RMDs should be based on the beneficiary’s life expectancy.

Inherited Plan Rollovers:

If a non-spouse beneficiary inherits an employer plan and wants to roll the funds over to an Inherited IRA or convert to an Inherited Roth IRA, it must be done by the end of the year after or following the death of the decedent to get the Stretch IRA and it must be done as a direct transfer.

Lump sum distributions:

If you took a lump sum from a corporate plan to take advantage of the net, unrealized, appreciation company stock tax break, all funds must be distributed by year end, not April 1st of the following year. If done improperly it could result in a huge tax bill.

Good planning and seeking advice from an expert in advance will help keep you in compliance and out of trouble with the IRS.

Have questions? Please call me at 440/942-1936.