Annual Required Minimum Distribution

Taxpayers are required to distribute to themselves minimum distributions (RMDs) from retirement accounts they hold such as 401(k) plans, traditional (but not Roth) IRAs, and 403(b) plans once they reach age 70-1/2 by year end.

Distributions from a qualified plan must begin no later than April 1 of the year following the year in which the account owner attains age 70-1/2.

Distributions are calculated based on the account balance for the year prior to the year in which the distribution is being taken.

The distribution amount that must be taken is based upon a taxpayer’s life expectancy.

The penalty for missing an RMD is substantial.

A 50 percent penalty is applied against any amount that was required to be distributed and not done timely.

The applies to every year, not just the year in which the RMD is initially required.

While the IRS is relatively lenient in waiving these specific penalties the first time with the understanding that people when they reach a certain age are not as attuned to these requirements there is still the cost of doing so.

To qualify for penalty abatement the taxpayer needs to remedy problem by withdrawing the amount required and provide an explanation to the IRS why the distribution was missed.

One popular exclusion for taxpayers over age 70 1/2 is that they can make charitable contributions directly from IRA accounts in the amount of the RMD, or greater.

Taxpayers who make charitable contributions will meet the RMD requirement for the year and will be able to exclude the distribution from income. This procedure has several advantages as this eliminates many of the Adjusted Gross Income (AGI) phase outs relating to Itemized Deductions such as the Medical expense exclusion set at 7.5% for seniors above age 65, which is 10% for all others (the exclusion changes to 10% for all taxpayers in 2017). Other phase outs also affected are those relating to Miscellaneous Deductions, and the overall phase out of all Itemized Deductions.

An alternative is to take the RMD (albeit a taxable one) as required, and then donate the amount thereafter to a charity and take an itemized deduction for a charitable contribution. This is of course subject to the makeup of each individual’s tax situation, and should be discussed with us prior to doing so.
We here at Muffoletto & Company believe that the more informed you are in regards to the rules and regulations that affect you the more we can be of service. Should you have questions relating to any tax or financial matters give us a call at (818) 346-2160, or you can visit us on the web at www.petemcpa.com!

Providing individuals, small businesses, corporations, partnerships, professionals, and other business entities with the necessary guidance and answers for a complex world.

IMPORTANT NOTICE

The contents of this email and any attachments to it may contain privileged and confidential information from Muffoletto & Company.

This information is only for the viewing or use of the intended recipient. If you are not the intended recipient, you are hereby notified that any disclosure, copying, distribution or use of, or the taking of any action in reliance upon, the information contained in this e-mail, or any of the attachments to this e-mail, is strictly prohibited and that this e-mail and all of the attachments to this e-mail, if any, must be immediately returned to Muffoletto & Company or destroyed and, in either case, this e-mail and all attachments to this e-mail must be immediately deleted from your computer without making any copies hereof.

If you have received this e-mail in error, please notify Muffoletto & Company by e-mail immediately.

To ensure compliance with Treasury Department regulations, we wish to inform you that, unless expressly stated otherwise in this communication (including any attachments) any tax advice that may be contained in this communication is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or applicable state or local tax law provisions or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

If you are not interested in receiving our technical bulletins, let us know and we will remove you from our distribution lists.