From the desk of
Peter S. Muffoletto, C.P.A.

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.