



Age 70½: Remember that Age When It Comes to Your IRA

Many people who have been contributing to IRAs (Individual Retirement Accounts) for years may have watched their accounts grow considerably through benefits of tax deferred accumulation. However, did you know the Tax Code mandates that contributions to Traditional IRAs are no longer permitted after reaching age 70½, and mandatory minimum withdrawals must commence no later than April 1st of the year after the year in which you reach age 70½?

Let's take a look at the following illustration. Suppose Jack Winslow's 70th birthday was July 15, 2007 and he attained age 70½ on January 15, 2008. Jack would have until April 1, 2009 (the year after reaching age 70½) to begin taking required distributions.

IMPORTANT: The first required distribution is actually for the year in which you attain age 70½—the IRS merely lets you postpone it until April 1st of the following year!

SPECIAL NOTE FOR 2009: As a result of The Worker, Retiree, and Employer Recovery Act of 2008, Required Minimum Distributions (RMDs) are waived for 2009 only. In 2009, no minimum distribution is required.

For all years after the first distribution, the required withdrawal must be taken by December 31st.

At first glance, postponing the first required distribution may seem like a good idea because you would be gaining additional tax deferral. However, a second distribution would be due by December 31st of the same year (i.e., that year's required distribution). Not only would this substantially increase your taxable income, it could limit some deductions (e.g., medical) based on adjusted gross income (AGI) and possibly subject your Social Security benefits to taxation.

Consequently, most people may find that it makes sense to take the first required distribution in the year when age 70½ is reached, rather than to postpone (and "double up") until the following year.

Calculating the Distribution

The minimum required distribution must be calculated each year by dividing the IRA balance as of December 31st of the previous year by the applicable life expectancy factor from the appropriate IRS table. If a person has more than one IRA account, the minimum distribution must be calculated based on the total balance in all accounts. However, this amount can be taken out of any one (or more) IRA account. For each subsequent year, the minimum required distribution must be recalculated.

IMPORTANT: If you fail to withdraw the minimum required amount each year, you may be subject to a substantial penalty tax. This tax is 50 percent of the difference between the amount actually withdrawn and the amount required to be withdrawn (i.e., the minimum distribution shortfall).

IRAs continue to be valuable accounts for retirement planning. However, the time of reckoning (i.e., mandatory withdrawals) may be approaching for many IRA owners and a little knowledge of the tax rules may help avoid tax problems. A qualified tax professional can assist you in gaining a better understanding of the mandatory minimum distribution rules for IRAs.