

## What Is a Required Minimum Distribution?

A required minimum distribution (RMD) is the annual amount that must be withdrawn from a traditional IRA or a qualified retirement plan (such as a 401(k), 403(b), and self-employed plans) after the account owner reaches the age of 70½. The last date allowed for the first withdrawal is April 1 following the year in which the owner reaches age 70½. Some employer plans may allow still-employed account owners to delay distributions until they stop working, even if they are older than 70½.

RMDs are designed to ensure that owners of tax-deferred retirement accounts do not defer taxes on their retirement accounts indefinitely. You are allowed to begin taking penalty-free distributions from tax-deferred retirement accounts after age 59½, but you must begin taking them after reaching age 70½. If you delay your first distribution to April 1 following the year in which you turn 70½, you must take another distribution for that year. Annual RMDs must be taken each subsequent year no later than December 31.

The RMD amount depends on your age, the value of the account(s), and your life expectancy. You can use the IRS Uniform Lifetime Table (or the Joint and Last Survivor Table, in certain circumstances) to determine your life expectancy. To calculate your RMD, divide the value of your account balance at the end of the previous year by the number of years you're expected to live, based on the numbers in the IRS table. You must calculate RMDs for each account that you own. If you do not take RMDs, then you may be subject to a 50% federal income tax penalty on the amount that should have been withdrawn.

Remember that distributions from tax-deferred retirement plans are subject to ordinary income tax. Waiting until the April 1 deadline in the year after reaching age 70½ is a one-time option and requires that you take two RMDs in the same tax year. If these distributions are large, this method could push you into a higher tax bracket. It may be wise to plan ahead for RMDs to determine the best time to begin taking them.

The information in this article is not intended to be tax or legal advice, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek tax or legal advice from an independent professional advisor. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase

or sale of any security. This material was written and prepared by Emerald. © 2015 Emerald Connect, LLC