Seven Things You May Not Know About IRA RMDs

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1. Dates and deadlines

Clients (and some advisors) are often understandably confused about the deadlines surrounding RMDs from retirement accounts. The first distribution is required by at least the April 1 that occurs after the account owner has reached age 70½. But the client is also required to take a second distribution before December 31 of that same calendar year, effectively taking two distributions in one calendar/tax year. A little planning can make sure the client pays as little taxes as possible on those two distributions.

If the client's taxable income is likely to be the same in the year they turn 70½ as it is the following year, you may want to take the first RMD in the year they turn 70½. But if that year's taxable income would otherwise be significantly higher than the following year, it may be better for the client to take no RMD in the year in which they turn 70½, then two distributions in the subsequent year. After the April 1 loophole comes and goes, all future RMDs have to be completed by December 31 of the year in question.

2. Painful penalties

If a client doesn't take an RMD by the corresponding deadline, they may owe a penalty of 50 percent of the minimum RMD, plus still have to take the RMD and pay taxes on it. That means if they were supposed to withdraw $10,000 from their retirement accounts in a given year, but didn't, they could get hit with a $5,000 penalty. However, in certain circumstances the IRS may offer some leniency to retirement account owners who don't meet the RMD by the deadline.

Those who are in this unfortunate situation should first take the belated RMD as soon as possible. Then they (or their tax preparer) should complete and submit the portion of IRS Form 5329 that covers distributions that should have been taken but weren't. The account owner should also include an explanation of why the RMD was missed and what steps have been taken to rectify the situation. Hopefully, the IRS will accept the *mea culpa*, and the account owner will suffer nothing more than a high degree of anxiety over the looming decision.

3. Take it from one account...

Clients who own several different tax-deferred retirement accounts must add up the total of all of those accounts at the previous year-end to determine the RMD for the current tax/calendar year.

But, they don't necessarily *have* to take a withdrawal from each account. Instead, they can pull money from one, some or all of the retirement accounts, as long as the total of the withdrawals meets or exceeds the RMD amount. Offering to assist a client in this situation will not only reveal all of the client's retirement accounts and amounts, but will also convince the client that it may be easier for everybody involved if the client consolidates those accounts into one place.

4. ...unless it's a 403(b)

403(b) plan accounts must be added to the total of the retirement accounts to determine the RMD. But, you can't use distributions from IRAs to satisfy the RMDs from 403(b)s (nor can you use 403(b) distributions to satisfy IRA RMDs). However, if the client has several different 403(b) accounts, they can take the RMD from just one of the accounts, as long as it's at least as much as the RMD based on the sum of all of the 403(b) accounts.

5. Cash or securities

Retirement account owners are allowed to take "in kind" distributions from their accounts to satisfy the RMD, meaning that instead of taking cash out of the account, they could transfer securities or shares to an individual or joint account.

Although the in-kind distribution amount is still taxed as ordinary income for the value on the date of the distribution, the new cost basis of the holding is now that same amount, and any future sale of the position will be treated as a traditional capital gain (or loss) event.

6. RMD to Roth IRA?

Unfortunately, clients cannot convert the RMD amount to a Roth IRA. However, they can convert any amount above and beyond the RMD from their IRAs to Roth IRAs.

How much should be converted? As a rule of thumb, you should only convert an amount now if it will be taxed at the same (or lower) rate as it would if and when it was withdrawn in the future. You should point out to the clients that amounts converted now won't count against future RMD amounts, but since the IRA will be reduced in size by the converted amount, future RMDs will also be reduced proportionately.

7. A donation is good—for good

The Protecting Americans from Tax Hikes Act of 2015 made permanent the provision that allowed IRA owners over age 70½ to transfer an amount from the accounts directly to a qualified charity, and have that amount count towards the overall RMD.

This maneuver will be especially useful to clients who don't necessarily need the distributed dollars and who don't have enough deductions (even with the donation) to exceed the standard deduction amount. The distribution has to go to a qualified public charity, and it has to go directly from the current IRA custodian to the charity—the client can't take the distribution personally and then pass it on to the charitable organization. The deadline for the contribution transfer is December 31 of the respective tax year. But interested IRA owners should start the procedure as soon as possible to ensure it is completed by the end of the year.

Full article: http://wealthmanagement.com/retirement-planning/seven-things-you-may-not-know-about-ira-rmds?NL=WM-27&Issue=WM-27_20160921_WM-27_125&sfvc4enews=42&cl=article_1_2&utm_rid=CPG09000003442463&utm_campaign=7108&utm_medium=email&elq2=ef74066c9b054f12bd4d99757ada5952#slide-7-field_images-1326581

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