financial fitness

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REQUIRED MINIMUM DISTRIBUTIONS

With the holidays fast approaching, it's important for those who are 72 and up not to forget about the Internal Revenue Service (IRS). When you turn 72, you must start withdrawing a specific amount—a required minimum distribution (RMD)—from your tax-deferred retirement accounts, such as a traditional individual retirement account (IRA) or a 401(k) plan. If you fail to take at least the required minimum distribution, the IRS will impose an excise tax of 50% of any shortfall.

Here are four important details to keep in mind:

1. If You Turned 72 in 2020

RMDs were suspended in 2020 for all IRAs, 401(k)s, and similar retirement plans. The suspension was not carried forward to 2021. For people who turned 72 in 2020, 2021 will be the first RMD they'll take because the 2020 distributions were suspended. This has caused some confusion about whether their 2021 RMDs need to be taken by December 31, 2021, or April 1, 2022. But since they turned 72 in 2020, the April 1 deadline probably doesn't apply to the 2021 distribution. The 2021 RMD really is their second RMD. To be safe if you turned 72 in 2020, take your 2021 RMD by December 31.

2. Delaying Your First RMD

As a rule, you must take RMDs by December 31 each year. However, appreciating that new "distributors" may need extra time to prepare for the withdrawal process, the IRS lets you defer your first RMD to as late as April 1 following the calendar year you turn 72. While that may be convenient, it might not be in your best financial interest. Holding off on that first payment means you have to take two RMDs in less than 12 months—the one you held over to the end of March, and the regular one due on December 31, potentially pushing you into a higher tax bracket.

3. Meeting RMDs with Multiple IRA & Across Plan Types

When you have more than one IRA, first you calculate the RMD separately for each IRA. Then, you have several options.

You can take the calculated RMD from each IRA.
Or
You can add all the RMDs together, aggregating them. Then, you can take the aggregated RMD from the IRAs in any proportion you want. The entire aggregated RMD can be taken from one IRA. It can be taken proportionally from each, or an equal amount can be taken from each IRAs, or any other allocation you think of can be taken as long as the total at least equals the aggregate RMD for the year.

The aggregation method can be used only with traditional IRAs. With 401(k)s and other employment-related accounts, you compute the RMD separately for each account and have to take the RMD from that account.

RMDs and Inherited IRAs
With inherited IRAs, you're allowed to combine RMDs for multiple inherited/beneficiary IRAs you received from the **same** decedent—and then withdraw the total from just one of those accounts. However, you cannot combine RMDs from IRAs you inherited from several decedents. And, you can't take the distributions for inherited IRAs from traditional IRAs that you own.

4. Combining RMDs With Your Spouse

Many financial assets may be held jointly by a married couple, but retirement accounts are not among those. These must be owned individually. That individual responsibility also applies to taking RMDs.

Unfortunately, couples often miss this distinction, especially if they file taxes jointly. As they file a single combined tax return, they assume—wrongly—that an RMD taken from one spouse's retirement account will satisfy the RMD on the other's account.

Let's say you and your spouse both face distributions, and you decide to simply take the entire combined amount of those RMDs out of your spouse's IRA. In the eyes of the IRS, you've missed taking your RMD. The agency will impose up to a 50% excise tax on that RMD amount. Meanwhile, your spouse will have "overdistributed" by taking more from her account than was necessary, which likely means paying more taxes.

Don't forget that instead of taking an RMD you can make a qualified charitable contribution (QCD). The amount of the QCD isn't included in your gross income but counts toward your RMD for the year. You can make QCDs up to $100,000 for the year. Plan to read next month's financial article where we will provide more information on QCDs.

Wagner Wealth Management has offices in Greenville, Anderson and Oconee counties. Call us at 864-236-4706 or visit www.wagnerwealthmanagement.com to learn more about our firm.

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Sources: https://www.investopedia.com/articles/retirement/04/120604.asp
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