



Your Small-Town Doctor of Financial Planning Says:

Know Your RMD Obligations

Retirement savings accounts can be a great way to grow your nest egg while deferring taxes. But there is a catch: Because the government wants its tax money eventually, it established the Required Minimum Distribution (“RMD”) rules. These rules can be confusing, but it is very important that you understand how they apply to your situation.

You must take RMDs from traditional IRAs and such employer-based plans as 401(k), 403(b), and 457(b) accounts and SEPs and SIMPLE IRAs. These withdrawals are taxable to you.

Roth Accounts

You are not required to take RMDs from a Roth IRA because, unlike contributions to a traditional IRA, contributions to a Roth account are not tax deferred and distributions are not taxable for Roth accounts that are older than five years. (Beginning in 2024, Roth accounts in employer-based plans such as 401(k)s also will no longer be subject to RMDs.) However, beneficiaries generally must take RMDs after inheriting these accounts.

When You Must Begin Taking RMDs

Recent legislation has changed the age at which RMDs must begin. Prior to 2020, the RMD age was 70½. The SECURE Act of 2019 increased the age to 72 for those reaching age 70½ after 2019. The subsequent SECURE 2.0 Act raised the age still further to 73 for those reaching age 72 after year 2022, and to age 75 for those reaching age 73 after year 2032.

In summary, after all of these legislative changes, you must begin taking RMDs as follows:

<u>Date of Birth</u>	<u>RMD Age</u>
Before July 1, 1949	70 ½
July 1, 1949 through 1950	72
1951 through 1959	73
1960 or later	75

The IRS allows you to delay your first RMD until April 1 of the year following the year in which it is required. But you will not be allowed to delay your subsequent RMDs. Thus, if you do delay that first RMD until the following year you would have to take two RMDs in that year.

If you're still working when you reach your RMD age, you may be able to defer your RMDs from your current employer's plan until after you retire. However, this ability to defer your RMD does not apply if you own more than 5% of the employer. It also does not apply to IRAs.

Calculation of RMDs

RMDs are calculated by dividing your account balance at the end of the previous year by a life expectancy factor specified in IRAs tables. Fortunately, your financial institutions generally should notify you of your RMD amounts.

The RMD is calculated separately for each traditional IRA you own. But you can choose which IRA(s) from which to take the total RMDs. You must withdraw RMDs from your employer-sponsored accounts separately.

Note that you can withdraw more than the required amount. If you withdraw less, however, you will be subject to a stiff tax penalty. (There are separate rules for how early you can take distributions from retirement accounts. For example, if you take a distribution prior to age 59 ½ and no applicable exception applies, you will incur a 10% penalty in addition to the normal tax liability.)

Penalty for Non-Compliance

SECURE 2.0 reduced the penalty for taking less than your RMD from 50% of the difference between what you withdrew and what you should have withdrawn. Effective in 2023, the penalty is 25% and can be reduced to 10% if the mistake is corrected in a timely manner as determined by the IRS. Still, even after this legislation, the failure to comply with the RMD rules can be expensive.

Conclusion

The RMD rules are complex and a trap for the unwary. You should consult your financial advisor or tax professional on how these rules apply to you. The Kelly Group advises our clients on their RMD obligations. If you would like to discuss our financial planning and wealth management services, please contact us at 410-893-0560 or access our website at www.kellyria.com.



The Kelly Group

48 E. Gordon St., Bel Air, MD 21014

Ph. 410-893-0560 | Fax: 410-838-3287 |
www.kellyria.com

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