Traditional IRAs

Understanding Required Distributions at 70½

Questions & Answers

Why are there federal tax rules mandating required minimum distributions from a traditional IRA?

The primary purpose of a traditional IRA is to provide retirement funds for the traditional IRA accountholder and also to accumulate funds for a beneficiary. Therefore, the tax laws require an IRA accountholder to take a required minimum distribution for the year he or she attains age 70½ and each subsequent year. After the IRA accountholder dies, the beneficiary or beneficiaries will be required to take required distributions. There are specific formulas for determining how much must be withdrawn, and when. These amounts are called "required minimum distributions" (RMDs).

What happens if I fail to withdraw the required minimum distribution?

Current federal income tax law provides a penalty tax of 50% of the amount required to be distributed, but which was not. For example, if you failed to withdraw a required minimum distribution of $1,000 for a given year, then you would owe a tax of $500.

What are the tax consequences of receiving an RMD?

The general taxation rule for traditional IRAs will apply. A recipient (you or your beneficiary) will include the amount received in gross income for the year of receipt. You (or your beneficiary, if applicable) will pay taxes with respect to this amount at the marginal income tax rate which applies to you (or your beneficiary, if applicable), unless a portion of the distribution is not taxable because it is comprised of basis.

Must I withdraw all of my money because I am 70½, or may I withdraw IRA funds in a number of payments?

You are not required to withdraw all of your IRA funds in one year. You may, if you wish, but you are not required to do this. You are also permitted to set up a distribution schedule over a number of years, as long as you take each year your RMD amount or a larger amount.

As long as your money is in your IRA, it remains tax deferred, as do any earnings. By using Periodic Payments over a number of years, you spread your income out over the Payment schedule and typically will pay less tax.

What is the basic RMD calculation?

There are actually two formulas which must be used to calculate the RMD amount. The RMD equals the IRA's balance as of the preceding December 31, divided by the distribution period set forth in the Uniform Lifetime Table or the Joint and Last Survivor Table.

Formula #1 $\text{RMD} = \dfrac{\text{Account Balance}}{\text{Period from Uniform Lifetime Table}}$

Formula #2 $\text{RMD} = \dfrac{\text{Account Balance}}{\text{Period from Joint Lives Table}}$

What is the Uniform Lifetime Table?

It is the table which the IRS has instructed be used for determining the distribution period for lifetime distributions to an IRA accountholder when his or her spouse is either not the sole designated beneficiary, or is the sole beneficiary, but is not more than 10 years younger than the accountholder. This is a joint life-expectancy table created by the IRS using the age of the IRA accountholder and a hypothetical beneficiary who is 10 years younger than the accountholder.

How is my required minimum distribution calculated under the RMD rules ?

The following formula is used to calculate the RMD: Balance as of the preceding 12/31 divided by the divisor from the Uniform Lifetime Table, based on the age of the accountholder. For example: the fair market value of your IRA as of 12/31/14 is $15,000. Your age is 77 in 2015. The divisor from the Uniform Lifetime Table is 21.2. Your required minimum distribution for 2015 is $15,000/21.2, or $707.55.

Uniform Lifetime Table

Age of IRA Account-holder	Distribution Period (in years)	Age of IRA Account-holder	Distribution Period (in years)	Age of IRA Account-holder	Distribution Period (in years)
70	27.4	86	14.1	101	5.9
71	26.5	87	13.4	102	5.5
72	25.6	88	12.7	103	5.2
73	24.7	89	12.0	104	4.9
74	23.8	90	11.4	105	4.5
75	22.9	91	10.8	106	4.2
76	22.0	92	10.2	107	3.9
77	21.2	93	9.6	108	3.7
78	20.3	94	9.1	109	3.4
79	19.5	95	8.6	110	3.1
80	18.7	96	8.1	111	2.9
81	17.9	97	7.6	112	2.6
82	17.1	98	7.1	113	2.4
83	16.3	99	6.7	114	2.1
84	15.5	100	6.3	115	1.9
85	14.8				

What life-expectancy table is used if the Uniform Lifetime Table is NOT used?

It is the Joint and Last Survivor Table. You may find it in IRS Publication 590 or in the final RMD regulation. The only time this table is used is if your spouse is your sole beneficiary on January 1 and he or she is more than 10 years younger than you are.

What happens if there is a change in my marital status after January 1?

If your spouse would die after January 1, or you become divorced after January 1, you will still be treated as married for such year. However, you would not qualify to use the Joint Table for subsequent years unless you would remarry and qualify again under the special rule.

What happens if I designate a beneficiary other than or in addition to my spouse during the current distribution calendar year?

If your spouse is not your sole beneficiary or he or she is not more than 10 years younger than you, there will be no effect on your RMD for the current year.

If your spouse is your sole beneficiary and he or she is more than 10 years younger than you, then your RMD amount will need to be redetermined by using the Uniform Lifetime Table. Your RMD would increase.

What is my required beginning date?

The required beginning date is April 1 of the year following the year in which you reach age 70½. You reach age 70½ on the day six months after your 70th birthday. For example, if your 70th birthday is June 25, six months from June 25 is December 25. You would be considered to be "70 and 1/2" in that year and must begin distributions by April 1 of the next year.

If my first distribution has to be withdrawn by April 1 of the year after the year I reach age 70½, when do I have to take additional distributions? What is my deadline for these distributions?

You are required to take distributions for each calendar year after the year you reach age 70½. While you have until April 1 of the year after the year in which you turn age 70½ to take your first distribution, distributions for the second year must be made by December 31 of such year. The deadline for subsequent distributions is December 31 of each subsequent year.

May I withdraw more than my required minimum distribution?

Yes, you are always able to withdraw more, but only to the extent of your IRA account balance.

Must the distribution schedule I establish also be the same as my required minimum distribution schedule?

No. The rule is that the amount distributed each year must always equal or exceed your RMD amount for such year.

Do all distributions count towards satisfying the RMD amount?

Almost all distributions do count; even the distribution of nondeductible contributions are counted. However, "corrective distributions" pursuant to Code section 408(d)(4), 408(d)(5), 408(k)(6)(C) or similar items defined by the IRS commissioner do not reduce the RMD amount.

Should I consult with my legal and/or tax advisor?

Yes. It is important that you understand these RMD rules, as the 50% tax is very punitive.

Will I be able to use a tax-free charitable distribution to satisfy my required distribution?

For 2013 you were able to as long as you did so by December 31, 2013. The tax laws for 2006-2013 authorized qualified charitable distributions. Time will tell if another tax law will be signed into law for 2014 and/or 2015. You will want to check with your tax advisor and/or the IRS before acting.

Can you give an example of what tax benefit I would receive by making a tax-free charitable distribution for 2014 if such law is extended for 2014?

Yes. Let's assume that you normally give your church $900 each year. Your required distribution amount was $800. If you would have instructed your IRA custodian to withdraw

$900 from your IRA and directly pay it to your church, then you would not have been taxed on this distribution, and you would have satisfied your required distribution. In prior years you would have had to include your distribution in your income for tax purposes, and then you might have been able to claim a tax deduction for your gift to the church. A taxpayer who used the standard deduction was unable to claim a deduction.

What "age" is used to determine the distribution period (i.e. life-expectancy factor) for the first year?

The age to be used is the age you attain as of December 31 of the year you attained age 70½. If your date of birth is 1/4/45, then you attain age 70 on 1/4/15, and 70½ on 7/4/15. Therefore, age 70 would be used for 2015. If your date of birth had been 8/10/44, then you would attain age 70½ on 2/10/15, and also age 71 in 2015. Thus, age 71 would be used for 2015.

Does it make any difference in calculating my required distribution—whether I designate my estate versus my daughter versus my grandson as my primary beneficiary?

No. The designation of any nonspouse beneficiary means the Uniform Lifetime Table will be used in the calculation formula. When the IRS re-wrote the RMD rules in 2002, it eliminated the rules that had provided for a single life-expectancy factor to be used in some beneficiary situations (e.g. naming a church or the estate as the beneficiary) and a joint life-expectancy factor in other situations. As mentioned previously, the Uniform Lifetime Table does set forth joint life-expectancy factors.

Am I required to take a minimum distribution from each IRA I have?

No. The minimum distribution amount must be calculated separately for each IRA you have. Under the final RMD rules, the IRA custodian must determine your RMD if you request it. However, you do not have to take a distribution from each IRA, as long as you satisfy the total minimum distribution amount from at least one IRA.

Example: Roberta is age 76 (distribution period of 22.0) in 2015, and she has four IRAs at four different IRA custodians:

IRA Custodian	IRA Balance	RMD Amount
First Bank	$5,000.00	$227.27
First Brokerage	$15,000.00	$681.82
Second Bank	$30,000.00	$1,363.64
Second Brokerage	$20,000.00	$909.09
Aggregate RMD TOTAL		$3,181.82

Roberta can take the $3,181.82 from the first IRA, the second IRA, the third IRA, the fourth IRA or in any combination, as long as she satisfies her required minimum distribution of $3,181.82. If Roberta withdraws $3,181.82 from the IRA at First Bank, then she should inform the other three custodians in writing that she has satisfied her RMD requirement by withdrawing funds from the IRA at First Bank.

Did the IRS revise the rules regarding the need to take a required distribution from each IRA I have?

Yes. The IRS has modified the alternative method rules originally set forth in Notice 88-38. The rule is unchanged that the RMD must be calculated separately for each IRA which an individual owns. Such RMDs must then be totaled and such total may be taken from just one of the IRAs or it can be taken from any combination of the IRAs. However, the IRS in adopting the final regulation modified the rule so that the RMDs of "like-kind" IRAs may be aggregated for purposes of this special distribution rule.

Examples of "like-kind" IRAs:

1. Traditional IRAs of a person who holds them as an accountholder;
2. Traditional IRAs of a person who holds them as a beneficiary, as long as related to the same deceased IRA accountholder (i.e. an inherited IRA); and
3. Roth IRAs of a person who holds them as a beneficiary of the same deceased Roth IRA accountholder (i.e. an inherited Roth IRA).

   For RMD purpose, a standard traditional IRA, SEP-IRA and SIMPLE-IRA are all defined to be traditional IRAs.

A distribution from an IRA which is not of the same type may not be used to satisfy the RMD requirement of another type of IRA. For example, if John Doe inherits two traditional IRAs from his dad and one traditional IRA from his mom, then he may aggregate the two IRAs he inherited from his dad, but he may not aggregate these two with the inherited one from his mom.

Traditional IRAs, Roth IRAs, and section 403(b) plans are three different types, so the three may not be aggregated. This special aggregation rule does not apply to distributions from Qualified Plans. There must be a separate distribution from each qualified plan, and a distribution from an IRA can never be used to satisfy an RMD for a QP, or vice versa.

Is there a worksheet which I could use to calculate my required minimum distribution?

Yes, an RMD worksheet is provided later in this brochure.

What rules apply if I wish to roll over funds from an IRA to a different IRA? Are there any special RMD rules with which I must comply?

Yes. The rules applying to rollovers have not changed. A person is not eligible to roll over an RMD. If one does, then it will be an excess contribution.

The IRS rules provide that the first money out of your IRA for a given year is defined to be your required distribution for such year, until your requirement is met. Therefore, if you were to take a distribution early in the year, thinking you could roll it over and later take your RMD amount, the IRS would consider the distribution to be part of your RMD amount, and rolling over an RMD amount is not permissible. You may, of course, use the alternative certification method and take your RMD amount for one IRA from a different IRA.

What rules apply if I wish to transfer funds from an IRA to a different IRA?

Current tax rules allow you to transfer your entire IRA balance (including any RMD for such year) from one IRA to another IRA. You must understand that there are some risks associated with the new rules.

The rules clearly state that the two IRA custodians (i.e. sending and receiving) are not responsible to redetermine your RMD amount just because you transfer funds out of their IRA or transfer funds into their IRA. This means that you, the accountholder, will be responsible to make sure that you withdraw your RMD from wherever you wish.

What is an RMD Notice?

Every IRA custodian/trustee must furnish an RMD notice to each IRA accountholder who must take a required distribution for a given year. For example, if an accountholder is required to take an RMD with respect to 2015, then the IRA custodian must furnish the notice by January 31, 2015. The IRA custodian has the following two options for furnishing this notice: (1) to calculate your RMD for you, or (2) to simply notify you of your RMD requirement, and calculate the amount and provide it to you only if requested. The IRA custodian may choose to inform you that you do not need to take a distribution from that specific IRA as long as you use the alternative certification method and take the RMD amount for that IRA from another IRA. The IRA custodian must also inform you of the date by which such amount must be distributed, and that the IRS is being informed each year, on the Form 5498, that you must take an RMD.

Is my IRA custodian required to give the IRS any information about my RMD?

Yes. The IRA custodian must, on an annual basis, indicate on the Form 5498 if an RMD is required with respect to the related IRA. At the present time, the IRS is not requiring that the actual RMD amount be reported to the IRS.

What withholding rules will apply to the periodic distributions made to me?

Prior to commencing your periodic distributions, you will need to instruct the IRA custodian whether or not you want to have federal income tax withheld from your distributions. Your IRA custodian will furnish you the necessary form. You may instruct the IRA custodian to withhold 10% of your distributions, an additional amount in excess of the 10%, or not to have withholding. You must be aware that there are penalties for not paying sufficient tax during the year, either through withholding or estimated tax payments. The IRS advises new retirees to review Publication 505. It explains your estimated tax requirements and describes penalties in detail.

Once I die, are there required distribution rules applying to my beneficiary(ies)?

Yes. Another CWF brochure (#154) is devoted to this topic. You may also review IRS Publication 590. There are rules requiring your beneficiary(ies) to withdraw certain minimum distributions by various deadlines. If such distributions do not occur by the appropriate deadline, then your beneficiary will owe the 50% excise tax. Some IRA plan agreements may require you to inform your beneficiary(ies) that he or she is a beneficiary of your IRA. The rules as to when and how much must be withdrawn by your beneficiary(ies) will depend on whether you die before or after your required beginning date. In general, your beneficiary may choose to withdraw the funds over his or her life expectancy commencing the year after you die. The rules applying to a beneficiary will not apply to your spouse if he or she is your sole primary beneficiary and he or she elects to treat your IRA as his or her own IRA. In this case, your spouse will not be required to start withdrawing funds until he or she becomes subject to the required distribution rules as an IRA accountholder.

RMD Worksheet

1. Value of IRA as of 12-31 (of previous year). __________ (1)

2. Add in outstanding rollovers, transfers and recharacterizations. __________ (2)
   (Example—You made a rollover contribution into this IRA, and it was after December 31, 2014, but on or before before March 1, 2015 (within the required 60 days). You are now calculating your 2015 RMD based on your 12/31/14 balance which does not include this rollover amount. You will need to adjust the December 31 balance by adding this rollover into the 12/31/14 figure so your RMD will be calculated accurately.)

3. Adjusted account balance to be used (line (1) plus line (2)). __________ (3)

4. Your age as of 12-31 of current year. __________ (4)

5. Determine the life-expectancy factor. __________ (5)
   (Use the applicable Table.)

6. Divide the amount on line (3) by the number listed on line (5). __________ (6)
   (This is the amount of the required minimum distribution before any distributions are credited.)

7. Distributions made during the year for which credits may be taken. (_________) (7)
   (If distributions were taken from an IRA other than the one referenced above, a certification should be attached.)

8. Subtract line (7) from line (6). The amount, if any, still required to be distributed for this Distribution Year. __________ (8)

IRA #107 (11/14)