



Proactive Wealth Management

## Monthly Letter

September 2016

### Questions About RMDs? Here's What You Need To Know.

The rules around Required Minimum Distributions can be confusing and the penalties for failing to take the correct distribution can be severe. For that reason, we've developed a brief primer on RMDs to help you understand your obligations and show you how to use your RMD to pursue your financial goals.

#### What Are Required Minimum Distributions?

RMDs are minimum amounts that retirement account owners must take out each year, usually starting the year they turn 70½.

[1] RMDs must generally be taken from any retirement account eligible for tax-deferred contributions such as: [2]

- Traditional IRAs
- SEP IRAs
- SARSEP IRAs
- SIMPLE IRAs
- Beneficiary IRAs
- 401(k), 403(b), and 457 plans
- Profit-sharing plans
- Roth 401(k)

You do not have to take RMDs from a Roth IRA. There are different rules regarding the age at which you must begin RMDs for some retirement plan accounts, and it's a good idea to talk to a qualified tax expert to understand which rules apply to your situation.

## How Is Your RMD Calculated?

Your minimum distribution is calculated based on the end-of-year balance of your retirement account and a life expectancy factor published by the IRS.<sup>[3]</sup> As you age, your life expectancy decreases and your RMD increases. Though the RMD is calculated separately for each IRA, you can take the total amount from a single IRA if you prefer. RMDs from most employer-sponsored retirement accounts and beneficiary accounts must be calculated and taken separately for each account.<sup>[4]</sup>

You can always take out more than your RMD each year, but you won't be allowed to apply any excess to future years. The penalty for failing to take out enough to satisfy your RMD by the deadline is a 50% excise tax on the undistributed portion.

## How Will Your RMD Affect Your Tax Situation?

RMDs are generally treated as ordinary income and will be taxed at your income tax rate. If you turned 70½ last year you can delay your first RMD until April 1<sup>st</sup> of the following year though you'll still need to take your RMD for age 71 by December 31<sup>st</sup>.<sup>[5]</sup> Taking two RMDs in a single year can affect your tax picture, so it's a good idea to speak to your advisor about tax-efficient strategies.

From a tax perspective, it doesn't matter whether you take your RMD earlier or later in the year. However, if you're interested in making a tax-free transfer of your RMD to charity, you may want to consider waiting until December. Though the Qualified Charitable Distribution provision expired in 2013, Congress temporarily renewed it in December 2014, giving taxpayers a very short window to make a charitable donation, and may do it again in the future.<sup>[6]</sup>

## What Can You Do With Your RMD?

Once you've taken your RMD from your retirement account and paid the taxes on it, you can treat it as you would any other source of income. If you don't need the money to cover your living expenses, you can:

- Reinvest it in a taxable account for future needs.
- Contribute it to a college savings account.
- Gift it to your loved ones.

Taking RMDs can be complex and it's a good idea to consult a financial professional to develop strategies that minimize your taxes and support your retirement goals. If you have questions about RMD strategies, please call our office at 910-791-1437.

Kind Regards,

IronGate Partners

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[1] [http://www.irs.gov/Retirement-Plans/Plan-Participant,-Employee/Retirement-Topics-Required-Minimum-Distributions-\(RMDs\)](http://www.irs.gov/Retirement-Plans/Plan-Participant,-Employee/Retirement-Topics-Required-Minimum-Distributions-(RMDs))

[2] <http://www.irs.gov/Retirement-Plans/Retirement-Plans-FAQs-regarding-Required-Minimum-Distributions>

[3] <http://www.irs.gov/Retirement-Plans/Plan-Participant,-Employee/Retirement-Topics-Required-Minimum-Distributions-%28RMDs%29>

[4] [http://www.irs.gov/Retirement-Plans/RMD-Comparison-Chart-\(IRAs-vs.-Defined-Contribution-Plans\)](http://www.irs.gov/Retirement-Plans/RMD-Comparison-Chart-(IRAs-vs.-Defined-Contribution-Plans))

[5] <http://www.irs.gov/Retirement-Plans/Retirement-Plans-FAQs-regarding-Required-Minimum-Distributions>

[6] <http://www.irs.gov/uac/New-Law-Renews-IRA-Transfers-to-Charity-for-2014-Owners-Must-Act-by-Dec-31>

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IronGate Partners Inc.  
2601 Iron Gate Drive  
Suite 201  
Wilmington, NC 28412

<http://irongatepartnersinc.com>

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IronGate Partners Inc. | 2601 Iron Gate Drive | Suite 201 | Wilmington | NC | 28412