Randy P. Siller and Jeffrey S. Cohen

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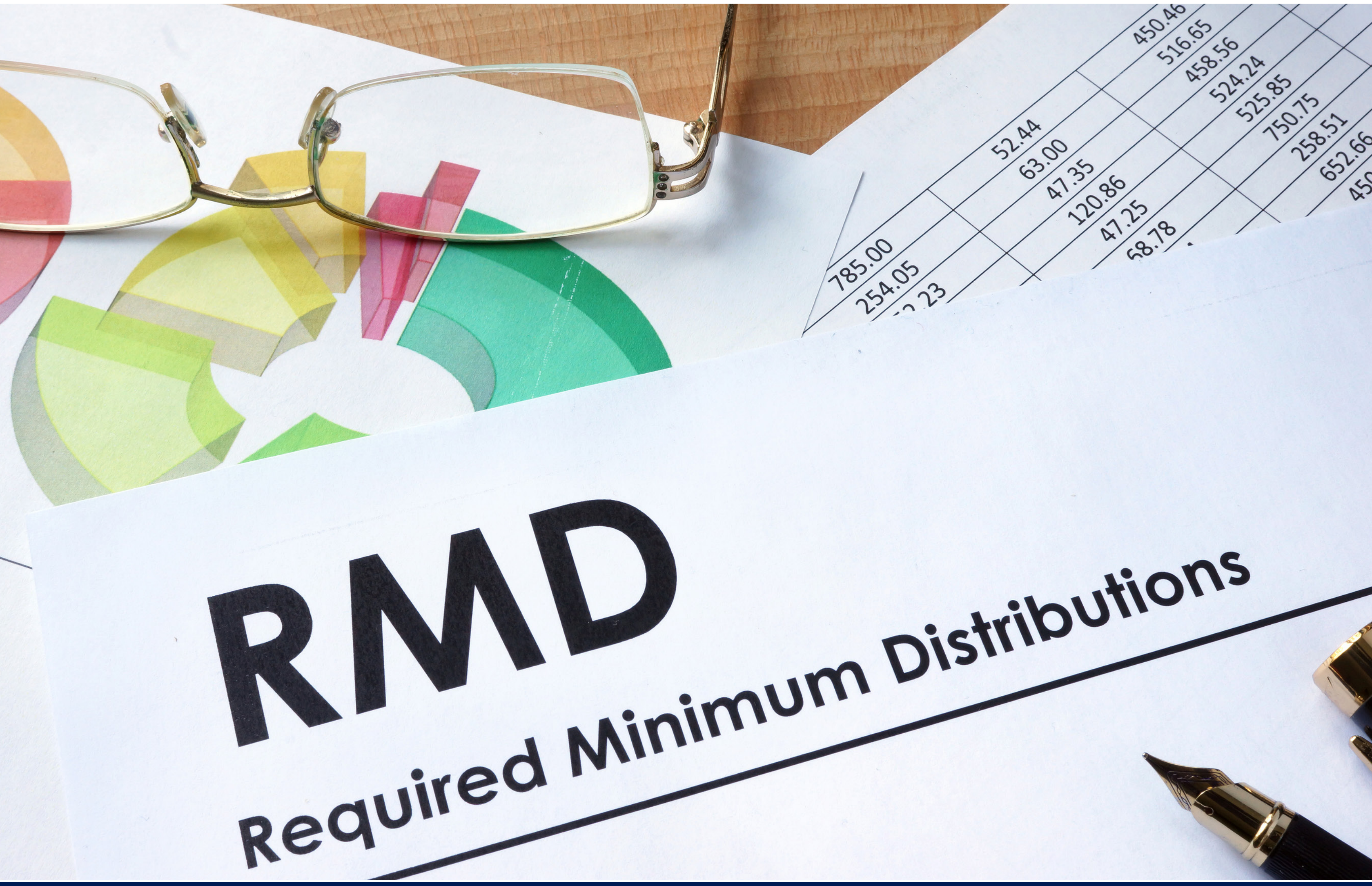
The Siller & Cohen Report



INSIDE THIS ISSUE

Things You Need to Know - The Ins and Outs of Required Minimum Distributions

Siller & Cohen
Family Wealth Advisors

Things You Need to Know - The Ins and Outs of Required Minimum Distributions

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It has been said "When Spring is in the air, a young man's thoughts turn to baseball!" It could also be said then when Autumn is in the air, an older man's (and woman's) thoughts turn to ….. Required Minimum Distributions! Or at least they should, as October is upon us, December 31st isn't that far off, and thus it's a perfect time to talk about IRA accounts, and what must be done before year-end in order to make the necessary distributions, and avoid a very large excise tax.

What is a Required Minimum Distribution?

• The IRS doesn't let you keep all of your money in your retirement accounts forever. Except in the case of a Roth IRA (see more below) and a few other minor exceptions, you received the benefit of an income tax deduction each year that you made a retirement plan contribution, and you've gotten the benefit of tax deferral and presumably greater growth in the account value over possibly many years. But eventually, the IRS forces you to start withdrawing money from your IRA accounts, so they can finally tax it.

• If you own a traditional IRA (this includes SEP IRAs, SIMPLE IRAs, and SARSEP IRAs), or an employer sponsored retirement plan such as a profit-sharing plan, a 401k account, or a 403b account (Note that unless I state otherwise, the rules for a 401k, 403b or other employer sponsored plan are the same as those for an IRA), then beginning with the calendar year in which you turn age 70½, you are required to take a minimum distribution from these accounts, each and every year. This is called a Required Minimum Distribution, or RMD for short. I explain below how each year's RMD amount is calculated. As you read the balance of this article, note that to "take an RMD" means the same thing as to "withdraw from an IRA account".

• A couple of things to know; the RMD is exactly that, the required *minimum* distribution for that year; you are always free to take *more* than the RMD in a given year, even to the point of emptying your account. However, if you *do* take more than your RMD in one year, you're not allowed to deduct the excess from your RMD in the following year; you must still take the following year's *full* RMD. Note also that if you own a 401k or 403b account at your employer, there is a "still working exception" that may allow you to *delay* RMDs from these accounts *beyond* your age 70½, provided that (1) you are still working for the company, and (2) you don't own more than 5% of the company.

• There are *no* required minimum distributions from a Roth IRA that you own, during your life. However, when you die and pass your Roth IRA to your heirs, they will be required to start taking RMDs. (How does a Roth IRA differ from a traditional IRA? You get no income tax deduction for your contributions to a Roth IRA, your account grows tax-deferred, and subject to certain rules, when you withdraw money from the Roth IRA, it comes out income-tax-free!)

How Do You Calculate Your RMD?

• Each year's RMD is calculated by taking the balance in your IRA as of December 31st of the *prior* year, and then dividing it by a life expectancy factor found in a table provided by the IRS, called the *Uniform Lifetime Table*. You can find this table on the IRS website, or in IRS Publication 590-B. (Note that if the IRA owner's spouse is the sole beneficiary of the IRA, and he/she is more than 10 years younger than the owner, a different table is used to calculate the RMD, called the Joint Life and Last Survivor Expectancy Table.)

• Here is an example: If you are age 73 in 2016, and are required to use the Uniform Lifetime Table, your life expectancy factor is 24.7. If the 12/31/15 balance in your IRA was $600,000, you would divide $600,000 by 24.7, to arrive at your 2016 RMD amount of $24,292.

What's the deadline for taking your RMD?

• Except for your very first RMD, discussed just below, all RMDs must be withdrawn from your IRA no later than December 31st of the current year. Thus, in our example just above, the 2016 RMD of $24,292 must be withdrawn from your IRA no later than December 31, 2016. You can withdraw your entire RMD in a lump sum at any time during 2016, or you can withdraw it in portions over the course of the year.

• Note that the first year that you are required to take an RMD, which is the calendar year in which you turn age 70½, you have the option to *delay* taking that year's RMD until April 1st of the *following* year. Thus, if you turn 70½ in 2016, you can take your 2016 RMD by December 31, 2016, or if you wish, you can delay taking it until April 1, 2017. However, if you choose to delay the 20<u>16</u> RMD until April 1, 2017, you will still have to take the 20<u>17</u> RMD by December 31, 2017, and thus you will end up taking *two* RMDs in 2017.

What happens if you miss the December 31st deadline?

• Nothing good; the IRS may assess you an excise tax equal to a full <u>50%</u> of the RMD that you should have withdrawn by December 31st, but didn't. Again, in our example, if you failed to withdraw the full RMD of $24,292 by December 31, 2016, you would owe an excise tax of $12,146.

• The good news is that if you miss the deadline, the IRS *might* be persuaded to waive the excise tax for good cause. In that circumstance, you should immediately withdraw the RMD from your account, report your failure to meet the December 31st deadline on IRS Form 5329, and include a letter to the IRS explaining *that* you missed the deadline, *why* you missed it, that you have since taken the RMD, and that you have taken steps to be sure that your future RMDs will be taken on time.

If you have more than one IRA, do you have to take an RMD from each separate IRA? What about 401k and 403b accounts?

• This is somewhat complicated, and if you have any questions about this, we strongly recommend that you consult with your financial advisor by early December.

• That said, with respect to IRA accounts (but not 401k, 403b, or profit sharing plans, which are discussed below), you can calculate the RMD for each separate IRA, and then add up all of the separate RMDs to arrive at your total RMD (called your "aggregate" RMD). You are then free to withdraw your aggregate RMD from just one of your IRAs, or you can withdraw it from multiple IRAs in any amounts you wish, as long as the total withdrawals from your IRA accounts equal your aggregate RMD. Note that this aggregation rule applies to IRAs that you *own*, it does not apply to IRAs that you have *inherited*. In other words, you can't satisfy an RMD for an IRA you own, by taking a distribution from an IRA that you have inherited.

• Different rules apply to employer retirement plans such as 401k accounts, 403b accounts, and profit sharing plans. You must take a separate RMD from *each* employer plan. For example, if you have two 401k accounts and one 403b account, you must take *three* separate RMDs, one RMD from each plan.

• You can't take a 401k or 403b RMD from an IRA, or an IRA RMD from a 401k or 403b account. This is a common mistake. If you catch the mistake *before* December 31st, you can fix it by taking the proper RMD from the proper accounts before year end. There is no harm here, except that you will have withdrawn more than you were required to, and created additional taxable income for that year that you would otherwise have avoided. If you don't catch the mistake until *after* December 31st, you will be subject to the 50% excise tax.

• Finally, as noted above, there are no required minimum distributions from a Roth IRA that you own, but if you do take a distribution from your Roth IRA in a given year, it *can't* be used to satisfy your RMD from any other IRA.

We hope this information has been of value to you.

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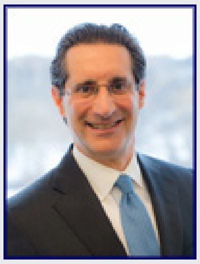

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ABOUT SILLER & COHEN

Siller & Cohen is a boutique family wealth advisory firm providing financial solutions for the past twenty-eight years to institutions and high net worth individuals. We combine the detail and careful attention of a smaller firm with the deep resources of a national organization. Our team includes CPAs[1], Certified Investment Management Analysts, and attorneys.[1]

While we offer our clients the full range of planning services, our core areas of expertise include wealth transfer, investments, and business succession planning.

This is the 11th year in a row that Barron's Magazine has recognized a member of Siller & Cohen as being among the top advisors in the nation.[2]

[1] Licensed, not practicing
[2] The list was compiled by RJ Shook, Financial Industry Consultants. This is an objective ranking based on assets under management.

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