



Required Minimum Distributions



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Required Minimum Distributions “RMDs” are withdrawals a taxpayer must take from most retirement accounts once the taxpayer is over the age of 72. The rules around these withdrawals have shifted over the last few years, so we thought it would be a good time to revisit some of the basics:

- A taxpayer’s RMD is calculated by dividing the December 31 balances of those accounts subject to RMD rules by a factor from the IRS life expectancy table, which you can find at the bottom of the IRS RMD guide (which is very helpful), posted here: https://www.irs.gov/publications/p590b#en_US_2019_publiclink1000231236
- The RMD is taxable income to the taxpayer, for both federal and state income tax purposes.
- The SECURE Act, passed in 2020, modified the age at which RMDs must begin. If you reached the age of 70½ in 2019, you must have taken your first RMD by April 1, 2020. If you reach age 70½ in 2020 or later, you must take your first RMD by April 1 of the year after you reach age 72.
- The CARES Act, another piece of 2020 legislation, waived all RMDs for 2020. This waiver was for 2020 only and, as of this writing, there is no waiver for 2021 RMDs.
- RMDs do not need to be taken if you are still working, unless you own 5% or more of the company you work for. This rule results in self-employed individuals needing to take RMDs if they are over the relevant age requirements.
- The IRS assesses a penalty of up to 50% of the RMD amount if you miss the RMD in any given calendar year.
- Taxpayers over 70½ may divert up to \$100,000 of their RMDs directly to a charity through something called a qualified charitable distribution, or “QCD.” A QCD will not result in a charitable deduction; instead, the taxpayer



never recognizes the transferred amount as income at all. This preferential tax treatment — no income recognition versus recognizing income and only taking a deduction against a portion (30-50%) of it — makes the QCD one of the preferred tax tools for families who do not need the RMD to cover their annual expenses. QCDs cannot be paid to donor advised funds or to family foundations, and there are some rules that need to be followed. We always recommend bringing the accountant into the conversation before making these transfers.

- The IRS has a great FAQ for taxpayers considering any sort of distribution from IRAs, SIMPLE IRAs, and SEP plans, which you can find here: <https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-iras-distributions-withdrawals>

Our operations team manages the RMD process for our clients on the accounts that we manage. Our team will be in touch with you as you cross the age milestones and will make sure we are all on the same page around the timing and amount of RMDs each year. Please reach out to one of our team members if you have questions on RMDs or other planning-related topics.

