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Voluntary IRA Withdrawals Before Age 70 ½

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What do you think about voluntary withdrawals from individual retirement accounts before age 70½? The new tax rates seem to make such withdrawals more attractive.
Indeed they do. And this is something to weigh seriously before year-end.

The conventional wisdom tells us to wait as long as possible (read: age 70½, when required withdrawals kick in) to tap IRAs and related accounts, to take advantage of their tax-deferred growth. But that thinking ignores the opportunities to withdraw funds from your nest egg at what could be favorable tax rates. Ed Slott, an IRA expert in Rockville Centre, N.Y., offers the following example:

Under the new tax law, in 2018 a married couple filing jointly can have taxable income (after deductions) between $77,400 and $165,000 and stay in the 22% tax bracket. A couple, Jim and Jane, are in their 60s and, thus, aren't required to withdraw funds from their IRAs. But…in reviewing their finances, they find that their taxable income for 2018 will be about $120,000. That means they could take up to $45,000 from their IRAs—if done before year-end—and owe tax at 22%.

The two decide that they can take $25,000 from Jim's IRA, generating a $5,500 federal tax obligation (22% of $25,000), which they believe they can handle comfortably from their cash reserves. The net amount—$19,500—can be spent or reinvested, as they see fit.

"This maneuver reduces future required minimum distributions," Mr. Slott notes, and "eliminates the risk that this money will be withdrawn in a later year, with higher tax rates."

And remember: The new tax law reduces federal income-tax rates from 2018 through 2025, so taxpayers should consider the merits of voluntary withdrawals from IRAs and related accounts for the next several years.