# O’Neil & Steiner, PLLC
# Required Minimum Distributions (RMDs) Information

Required Minimum Distributions (RMDs) are the minimum amounts that must be withdrawn annually from most retirement accounts like Traditional IRAs, 401(k)s, 403(b), etc. The primary goal is to ensure that retirement savings are taxed and not indefinitely deferred. Failure to take RMDs can result in a 25% penalty on the amount not withdrawn, though this can be reduced to 10% if corrected within two years. These are the basics:

<u>When RMDs Begin:</u>

- For most individuals, RMDs begin at age 73.
- The first RMD can be taken by April 1 of the year following the year you turn 73.
  - *Beware*: If you choose to take your first RMD by April 1 of the following year, you will need to take a second RMD by December 31 of that same year. Waiting and taking both the first and second required distribution in same tax year following your 73rd birthday can result in:
    - Lower taxation – This can occur if you are earning wages in the year you turn 73, resulting in higher tax brackets being reached,
    - Higher taxes – This can occur when the two years have similar incomes, but both RMDs landing in the same tax year results in paying your highest rate on a larger portion of the distributions.
    - No difference, just deferral – For those whose income would be taxed in the same tax bracket regardless of whether they received one RMD, both RMDs, or none at all.
- Subsequent RMDs must be taken by December 31 of each year.

<u>Types of Accounts Affected:</u>

- Traditional IRAs, SEP IRAs, SIMPLE IRAs, and most employer-sponsored retirement plans like 401(k)s and 403(b)s are subject to RMD rules.
- Roth IRAs are exempt from RMDs during the account owner's lifetime.
- Inherited IRAs have their own specific RMD rules.
  - Most often the inherited account must be liquidated within a 10-year window beginning on 1/1 of the year after the original owner’s death.
  - There are exceptions for spouses, disabled or chronically ill individuals, and minor children.
  - Whether the original owner had reached their RMD age prior to passing or not will also impact RMD rules in a couple of ways:
    - An annual RMD is required, for each year during the 10-year window, if the original owner had reached their RMD age.

        - If the original owner had an RMD for the year they passed, and had not yet taken the RMD, the beneficiary is required to take the RMD by 12/31 of the year they passed.

<u>How RMDs are Calculated:</u>

- RMDs are calculated based on your age, your life expectancy, and the value of your retirement accounts as of the end of the previous year.
- Your plan provider or financial advisor can also help you calculate your RMD. Please contact them to find out how and when you should expect to receive your RMD each year, or to discuss options (online, email, by mail, etc.)
- If you want to do some math:
    - The IRS provides a uniform lifetime table for determining life expectancy factors.
    - You can generally find your life expectancy factor on the IRS Uniform Lifetime Table or through your plan administrator.
    - You can calculate your RMD by dividing the account ending balance on 12/31 of the prior year by your life expectancy factor.

<u>What Happens if You Don't Take RMDs:</u>

- If you don't take your RMD by the deadline, you may be subject to a 25% penalty on the amount you failed to withdraw.
- However, the penalty can be reduced to 10% if you correct the error within two years by taking the distribution, according to the IRS.
- We strongly recommend setting up a plan to automatically receive your RMDs annually with your plan provider or financial advisor, so you have one less thing to remember each year.

<u>Strategies to Consider:</u>

- Qualified Charitable Distributions (QCDs): You can make tax-free distributions directly to a qualified charity, which can satisfy your RMD and avoid having to include the RMD in your total income for the year. Doing so can save taxes when compared to taking the RMD yourself, then making the same charitable contribution. Tax savings result from:
    - QCDs given by taxpayers who would not benefit from itemizing get the same effect as being able to claim their standard deduction plus the amount donated since it is not counted as income to begin with.

  - QCDs result in that portion of your RMD not considered as part of your total income. This can reduce the taxable portion of your Social Security benefits.
  - QCDs may allow you to deduct a larger portion of your medical expenses if you itemize. Medical expenses are first reduced by 7.5% of your Adjusted Gross Income (AGI), which includes RMDs if not done by QCD as well as the taxable portion of Social Security Benefits. Minimizing AGI results in a larger portion of medical expenses remaining to be claimed if you itemize.
  - It is important to note that not everyone will save a significant amount of tax by using QCDs. You should carefully consider the amount you want to contribute, and the anticipated tax savings that will result, prior to making a final decision.
  - Important limits: The total that can be given by QCD by each taxpayer is as follows:
    - Tax Year 2025: $108,000
    - Tax Year 2026: $111,000

- Reinvesting Excess RMDs: If your RMD is higher than you need, you can reinvest the excess in a taxable brokerage account to benefit from potential growth over time.

<u>Note:</u>

- RMDs are calculated separately for each retirement account, but you can take the total amount from one or more accounts, as long as your distributions meet or exceed the total RMD amount across all accounts for the year.
  - For example: If a taxpayer has three accounts with RMDs as follows:

    Account #1 RMD = $5,000<br>
    + Account #2 RMD = $20,000<br>
    <u>+ Account #3 RMD = $35,000</u><br>
    Total RMD for the year = $60,000

  Taxpayer can take each RMD amount above from each of the three accounts; $60,000 from his/her choice of RMD accounts, $30,000 each from 2 of the RMD accounts, etc.