Happy 70 ½ Birthday!

I can guarantee you that I will be the only one this year to wish you a happy 70 ½ birthday. And yes, there is a very good reason for that. You see, the IRS requires that you begin taking distributions from your tax-favored retirement accounts and pay the resulting income taxes this calendar year. And guess what? If you don't you'll have to pay MORE taxes! 50% more. That's right! You see, Uncle Sam wants the tax revenue generated by your distributions. You were able to put that money into your retirement accounts before-taxes, so now it's time to pay up. Make sure you don't pay more than necessary!

The basics of the "Required Minimum Distribution" (RMD) rule work like this: Based on your age and your beneficiary's age, you'll get a life expectancy "factor". Next, add up all your Traditional IRAs, 401(k) accounts, and the like, and then divide that by the "factor". This will give you the total dollar amount you need to withdraw from your accounts this tax year.

There are a few exceptions:

- If you are still working, and NOT a more than 5% owner in your company, you can wait until April 1st of the year after you retire to take the RMD from that company's 401(k) only. (You will still need to take RMDs from your outside IRA's)
- You do NOT have to take RMDs from ROTH IRAs, unless you inherited them.
- If you have multiple 401(k)s, you will need to take the RMD from EACH one. (For multiple IRAs you can take the RMD from just one if you want)

Also, you do have the option of delaying your first RMD to April 1st of the following year, HOWEVER, you must then take your second RMD that same year, so your taxable income increases!

To say that this rule is complicated is an understatement. It certainly makes the idea of consolidating your retirement accounts a good one, as NO ONE should pay a 50% tax penalty when it is avoidable. I would encourage you to give us a call to go over any outside accounts you have and help determine a strategy for meeting the RMD Rule's requirements.