You may need to add RMDs to your year-end to-do list

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As the end of the year approaches, most of us have a lot of things on our to-do lists, from gift shopping to donating to our favorite charities to making New Year's Eve plans. For taxpayers "of a certain age" with a tax-advantaged retirement account, as well as younger taxpayers who've inherited such an account, there may be one more thing that's critical to check off the to-do list before year end: Take required minimum distributions ("RMDs").

A huge penalty

After you reach age 70½, you generally must take annual RMDs from your:

- IRAs (*except* Roth IRAs), and
- Defined contribution plans, such as 401(k) plans (unless you're still an employee and not a 5%-or-greater shareholder of the employer sponsoring the plan).

An RMD deferral is available in the initial year, but then you'll have to take two RMDs the next year. The RMD rule can be avoided for Roth 401(k) accounts by rolling the balance into a Roth IRA.

For taxpayers who inherit a retirement plan, the RMD rules generally apply to defined-contribution plans and *both* traditional *and* Roth IRAs. (Special rules apply when the account is inherited from a spouse.)

RMDs usually must be taken by December 31. If you don't comply, you can owe a penalty equal to 50% of the amount you should have withdrawn but didn't.

Should you withdraw *more* than the RMD?

Taking only RMDs generally is advantageous because of tax-deferred compounding. But a larger distribution in a year your tax bracket is low may save tax.

Be sure, however, to consider the lost future tax-deferred growth and, if applicable, whether the distribution could: (1) cause Social Security payments to become taxable, (2) increase income-based Medicare premiums and prescription drug charges, or (3) affect other tax breaks with income-based limits.

In addition, while retirement plan distributions aren't subject to the additional 0.9% Medicare tax or 3.8% net investment income tax ("NIIT"), they *are* included in your modified adjusted gross income ("MAGI"). That means they could trigger or increase the NIIT, because the thresholds for that tax are based on MAGI.

For more information on RMDs or tax-savings strategies for your retirement plan distributions, please contact us.

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