



Do you have questions about taking IRA withdrawals? We've got answers

Once you reach age 73, tax law requires you to begin taking withdrawals — called Required Minimum Distributions (RMDs) — from your traditional IRA, SIMPLE IRA and SEP IRA. Since funds can't stay in these accounts indefinitely, it's important to understand the rules behind RMDs, which can be pretty complex. Below, we address some common questions to help you navigate this process.

What are the tax implications if I want to withdraw money before retirement?

If you need to take money out of a traditional IRA before age 59½, distributions are taxable, and you may be subject to a 10% penalty tax. However, there are several ways that you can avoid the 10% penalty tax (but not the regular income tax). They include using the money to pay:

- Qualified higher education expenses,
- Up to \$10,000 of expenses if you're a first-time homebuyer,
- Expenses after you become totally and permanently disabled,
- Expenses of up to \$5,000 per child for qualified birth or adoption expenses, and
- Health insurance premiums while unemployed.

These are only some of the exceptions to the 10% tax allowed before age 59½. The IRS lists them all in this chart.

When am I required to take my first RMD?

For an IRA, you must take your first RMD by April 1 of the year following the year in which you turn 73, regardless of whether you're still employed. The RMD age used to be 72 but the Secure 2.0 Act raised it to 73 starting in 2023.

How do I calculate my RMD?

The RMD for any year is the account balance as of the end of the immediately preceding calendar year divided by a distribution period from the IRS's "Uniform Lifetime Table." A separate table is used if the sole beneficiary is the owner's spouse who's 10 or more years younger than the owner.

How should I take my RMDs if I have multiple accounts?

If you have more than one IRA, you must calculate the RMD for each IRA separately each year. However, you may aggregate your RMD amounts for all of your IRAs and withdraw the total from one IRA or a portion from each of your IRAs. You don't have to take a separate RMD from each IRA.

Can I withdraw more than the RMD?

Yes, you can always withdraw more than the RMD. But you can't apply excess withdrawals toward future years' RMDs.

In planning for RMDs, you should weigh your income needs against the ability to keep the tax shelter of the IRA going for as long as possible.

Can I take more than one withdrawal in a year to meet my RMD?

You may withdraw your annual RMD in any number of distributions throughout the year, as long as you withdraw the yearly total minimum amount by December 31 (or April 1 if it is for your first RMD).

What happens if I don't take an RMD?

If the distributions to you in any year are less than the RMD for that year, you'll be subject to an additional tax equal to 50% of the amount that should have been paid but wasn't.

Plan carefully

Contact us to review your traditional IRAs and analyze other retirement planning aspects. We can also discuss who you should name as beneficiaries and whether you could benefit from a Roth IRA. Roth IRAs are retirement savings vehicles that operate under a different set of rules than traditional IRAs. Contributions aren't deductible, but qualified distributions are generally tax-free.