



Tax Tips You Can Use April 2009

RMD - Required Minimum Distribution from an IRA

By Kathleen Crawford, EA

This article is about RMD's because Congress changed the rules for 2009. An RMD is a Required Minimum Distribution from an IRA or other retirement plan like a 401K, 403B or 457 plan. A taxpayer who has an IRA or other plan and reaches the age of 70 & 1/2 must start taking distributions each year from the retirement account.

The rule has been that once you reach the age of 70 & 1/2, you must calculate an amount to withdraw given your life expectancy based on actuarial tables. You can always take out more but must take at least the minimum amount hence the term "Minimum Required Distribution". This is very important. Part of the fee a taxpayer pays to the custodian of the retirement account is to calculate and communicate this requirement.

Again this withdrawal is very important. If you get confused or forget to take your RMD, the penalty for not taking it by December 31 is 50%, yes that is FIFTY percent, of the distribution. You can imagine that people in their 70's and older, their IRA custodians and their tax preparers watch this like hawks. So it was news that on December 23, 2008, part of the new tax bill allowed people a one year reprieve from taking their RMD's. For 2009, only, a taxpayer can elect to not take the Required Minimum Distribution.

The reason for this was that many taxpayers, probably including Congressmen, have their IRA money invested in securities that are down in paper value right now. If a taxpayer must sell stock at a loss just to fund the RMD's, that could mean a great loss of overall value in the account. The one year reprieve does not mean that you can't take money out of the account, it just means that you are not forced to take a distribution.

Another note about withdrawals from retirement accounts is that some people feel that they cannot take money from the accounts and wonder what to do with their RMD's. IRA money is your money that is just not yet taxed. Taking a RMD or any distribution does not require a taxpayer to go to 7Feathers or Las Vegas to get rid of the money. It just means that the money now has been taxed and can be put in a savings account, brokerage account or used in any other way the taxpayer chooses. It is no longer locked behind a curtain. It can still be saved for future expenses or other uses.

Any taxpayer who has taken RMD's in the past or reaches 70 & 1/2 in 2009 should check with their IRA or retirement account custodian concerning their 2009 options. I know that some companies are requiring that people sign an opt-out letter. If you have completed your 2008 taxes and your tax preparer did not talk to you about this change for 2009, shame on him/her. If you have questions, you should call the custodian of your retirement account. You can also call your tax preparer, but please wait until after April 15th.

The Jacksonville Tax Lady, LLC can be reached at 541-899-7926 and is located in beautiful, historic Jacksonville at 610 N. Fifth Street across from the Pony Espresso.

The fine print is that this article is for information only. Please call Kathy or a tax professional for questions about your individual tax situation. The Jacksonville Tax Lady can be reached at 541-899-7926 or at 610 North Fifth Street.

