

## Is It Time To Crack Your Nest Egg?

### Required Minimum Distribution Rules

Beginning in the year you turn 70½ the tax rules for distributions require you to withdraw a certain calculated amount from your retirement plans each and every year, *whether you want to or not*. The penalty for failure to comply is a whopping 50 percent of the required amount that should have been withdrawn. The minimum distribution amount is just that, a minimum - you can always take more, but not less than the minimum.

When is your required beginning date (RBD)? The required beginning date is the year you turn age 70½ but no later than April 1 of the year *following* the year you reach age 70½. For example, if you turn age 70½ in 2011, you have until April 1, 2012 to take your distribution for tax year 2011. The RBD only applies to your first distribution, allowing an extra three months to take the distribution. Your second required distribution, and each distribution thereafter, must be taken by December 31 each year. Continuing our example of turning age 70½ in 2011, your second distribution is for tax year 2012 and must be withdrawn by December 31, 2012 – there is no grace period.

Should you wait until April 1 to take your first distribution? It depends on your tax situation. However, here is what happens. Again, using our example, if you turn 70½ in 2011 and wait until the grace period between January 1, 2012 and April 1, 2012 to take your first distribution, then your second distribution *must* be taken by December 31, 2012. You would therefore have two taxable distributions to report in tax year 2012. Although this would defer taxes for 2011, it would cause excess taxes for 2012.

The Required Minimum Distribution rules can get complicated, not just for the retirement plan owner, but also for beneficiaries who have inherited IRAs. There are special rules that apply only to certain types of plans and there are exceptions that apply in certain situations. The point is – know the rules as they apply to your situation. A few minutes planning could prevent an unnecessary punitive 50 percent penalty.

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