

# That First Distribution from Your IRA

*What you need to know.*

Provided by **Walter Pardo, CWS<sup>®</sup>, PPC<sup>™</sup>**  
**CEO/Certified Wealth Strategist**

When you are in your seventies, Internal Revenue Service rules say that you must start making withdrawals from your traditional IRA(s). In I.R.S. terminology, these withdrawals are called Required Minimum Distributions (RMDs).<sup>1</sup>

Generally, these distributions from traditional IRAs must begin once you reach age 72. The money distributed to you is taxed as ordinary income. (When such distributions are taken before age 59½, they may be subject to a 10% federal income tax penalty.)<sup>1</sup>

If you fail to make these withdrawals or take out less than the required amount, the I.R.S. will notice. In addition to owing income taxes on the undistributed amount, you will owe 50% more. (This 50% penalty can be waived if you can show the I.R.S. that the shortfall resulted from a “reasonable error” instead of negligence.)<sup>1</sup>

Many owners of traditional IRAs have questions about these IRA distributions and the rules related to them, so let’s answer a few.

**When is the deadline for your initial IRA distribution?** It must be taken by April 1 of the year after the year in which you turn 72. So, if you turn 72 in 2020, your first distribution from your traditional IRA has to occur by April 1, 2021. All the distributions you take in subsequent years must be taken by December 31 of each year.<sup>1</sup>

The starting age for these distributions has changed from 70½ to 72 due to a new federal law, the Setting Up Every Community for Retirement Enhancement (SECURE) Act. IRA owners born on or after July 1, 1949 are now scheduled to take initial IRA distributions after they turn 72.<sup>2</sup>

**Is waiting until April 1, 2021 a bad idea?** Maybe. While the I.R.S. allows you three extra months to take that initial IRA distribution, putting off the withdrawal could bring on a tax issue. These distributions are taxable in the year that they are taken. If you postpone the initial distribution slated for 2020 into 2021, then the taxable portions of both your *first* mandatory IRA distribution (deadline: April 1, 2021) and your *second* mandatory IRA distribution (deadline: December 31, 2021) must be reported as income on your 1040 form for 2021.<sup>1</sup>

A hypothetical example: James and his wife Stephanie file jointly, and together they earn \$168,400 in 2020 (the upper limit of the 22% federal tax bracket). James turns 72 in 2020, but he decides to put off his first IRA distribution until April 1, 2021, so that means he must take two IRA distributions before 2021 ends. His 2021 taxable income jumps as a result, and it

pushes the pair into a higher tax bracket. The lesson: if you will be 72 by the time 2020 ends, take your initial distribution by the end of 2020 – or risk potentially higher taxes.<sup>1,3</sup>

**How do I calculate my first IRA withdrawal?** If your IRA is held at one of the big investment firms, it may calculate the withdrawal amount for you and offer to route the amount into another account of your choice. It will give you and the I.R.S. a 1099-R form recording the distribution, and the amount of it that is taxable.<sup>5</sup>

Otherwise, I.R.S. Publication 590 is your resource. You calculate the amount of the distribution using Publication 590's life expectancy tables, and your IRA balance on December 31 of the previous year. If you Google "how to calculate your required IRA distribution," you will see links to worksheets at irs.gov and a host of other free online calculators.<sup>1,4</sup>

If your spouse is more than 10 years younger than you and is designated as the sole beneficiary for a traditional IRA that you own, you should use the I.R.S. IRA Minimum Distribution Worksheet (downloadable as a PDF) to help calculate your distribution.<sup>6</sup>

**Can I take my IRA distribution in increments?** Yes, if time permits. Your IRA custodian may be able to schedule these incremental withdrawals for you, perhaps with taxes withheld.<sup>7</sup>

**What if I have more than one traditional IRA?** You can figure out the total mandatory distribution by separately calculating the distribution for each of your traditional IRAs. You can take the total distribution amount from a single traditional IRA or multiple traditional IRAs.<sup>1</sup>

**What if I have a Roth IRA?** You don't need to make mandatory IRA withdrawals from a Roth IRA if you are its original owner. Only inherited Roth IRAs require these withdrawals.<sup>1</sup>

**Be proactive.** Delaying your first IRA distribution until 2021 could mean higher income taxes in 2022.

**Walter Pardo, CWS®, PPC™ may be reached at (877) 714-2362.**

**22 Church Street | P.O. Box 60 | Liberty Corner, NJ 07938 | 877-714-2362**

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#### **Citations.**

1 - irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions [2/7/20]

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- 3 - [nerdwallet.com/blog/taxes/federal-income-tax-brackets/](https://nerdwallet.com/blog/taxes/federal-income-tax-brackets/) [2/5/20]
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