FRANZEN & FRANZEN, LLP
CERTIFIED PUBLIC ACCOUNTANTS

January 16, 2012 – Required Minimum Distribution Rules

For those who will be 70 ½ by year-end, you may be subject to the required minimum distribution (RMD) rules affecting taxpayers who participate in a retirement plan. A required minimum distribution is the amount a plan participant must withdraw from his or her retirement plan account each year after the participant retires or reaches age 70 ½ (depending on the type of plan).

The RMD rules limit the time period that funds may remain tax-deferred in a retirement plan. For those individuals who can afford not to take a distribution, it is tempting to put off taking distributions indefinitely so that the plan benefit can continue to accumulate tax free as long as possible. The minimum distribution rules are designed to limit this temptation by requiring that distributions be made under very strict requirements. Failure to comply with these requirements may result in a significant penalty.

The rules for required minimum distributions can be complex and require proper planning to avoid any unforeseen tax consequences. There are numerous income tax, estate tax, and wealth transfer issues that affect RMDs. For example, who you designate as a beneficiary to your retirement plan may affect the amount of the annual distribution during your lifetime. In addition, if you currently have your estate or a trust as the designated beneficiary of your retirement plan, benefits could be subject to a complete distribution within five years of your death unless certain conditions are met. This rapid distribution might result in increased taxes and, thus, less of a benefit for your intended beneficiary.

If you have questions about how the RMD rules impact your distributions or your estate tax plans, please contact our office at your earliest convenience.

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