REQUIRED MINIMUM DISTRIBUTIONS (RMDS)

When Is Your First RMD Due?

If you turn 72 in 2022, you still have plenty of time to take your first RMD. But you might be better off taking it now.

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If there's one thing my father complains about every year, it's having to take required minimum distributions (RMDs) from his IRAs and 401(k) plan. He did a good job saving money for retirement when he was younger, so he doesn't really need to withdraw much from his retirement accounts each year. He has reluctantly been taking RMDs for several years now, but if you turned 72 in 2022 (or are about to turn 72 this year), you're just getting started. But there's good news if your 72nd birthday is this year – **you have until April 3, 2023**, to take the required withdrawals from your retirement accounts for 2022. So, while you don't want to forget about it, you still have plenty of time to take your first RMD.

And please take the deadline seriously. If you don't withdraw your first RMD by the April 3 due date, or if your distribution isn't large enough, you could be hit with a big IRS penalty. That's something you really want to avoid.

*[**NOTE:** The due date is usually on April 1. However, since April 1 falls on a Saturday in 2023, it's move to the next business day – which is April 3.]*

Due Dates for Required Minimum Distributions

As the IRS tells us, "you cannot keep retirement funds in your account indefinitely." That's why you're generally required to start taking money out of your retirement accounts each year (except Roth IRAs) once you reach 72 years of age. (Distributions from a Roth IRA are not required until after the owner's death.)

Normally, you must take your annual RMD by December 31. However, you can delay your *first* RMD until April 1 of the year following the year in which you reach age 72 (or the next business day if April 1 falls on a weekend or holiday – like it does in 2023). You don't have to delay the RMD, but it's an option.

If you're still working and don't own at least 5% of the company, you can also delay taking RMDs from your *current* employer's 401(k) or 403(b) plan until April 1 of the year after the year you retire. Again, it's your choice.

Delaying your first RMD can work for you or against you. If you delay your first RMD to the following year, you'll have to take two RMDs in that year: One for the year you delayed the RMD (i.e., for the year you turned 72), plus the one you'd normally have to take by December 31 for the year. This could trigger unintended consequences that increase your tax bill. For example, two RMDs in one year might kick you into a higher tax bracket or affect the amount of Social Security benefits that are subject to tax. One the other hand, if you had a lot of income in the year you turned 72 or retired, it might make sense to delay your first RMD to avoid similar problems that year. It all depends on your circumstances.

Calculating Your RMD

Generally, the minimum amount you're required to withdraw each year is calculated by dividing the account balance at the end of the previous year by a life expectancy factor that the IRS publishes in Publication 590-B for the previous tax year. (Note: For first-time RMDs that are due April 3, 2023, for people who turned 72 in 2022, use Publication 590-B for the 2021 tax year.) To help with the computation of RMDs from IRAs for 2022, we've created an easy-to-use tool that calculates RMDs for you.

If you have more than one traditional IRA, you need to determine a separate RMD for each IRA, but you can add up the RMD amounts and take the total from any one or more of your IRAs. However, if you have multiple 401(k) pr 403(b) accounts, you have to calculate and take the RMD from each plan separately. (Your 401(k) or 403(b) plan sponsor or administrator should calculate the RMD for you.)

Penalty for Failing to Take RMD

There's a stiff penalty for failing to follow the RMD rules. If your retirement plan distributions are less than the RMD for the year, you may have to pay an excise tax equal to 50% of the RMD amount that was not distributed.

You may, however, be able to get out of paying the penalty tax. You can request a waiver if your failure to take the RMD is due to a reasonable error and take whatever steps are necessary to increase your distribution to the required level. To request a waiver, submit Form 5329 with a statement explaining the error and the steps you're taking make things right.

RMD Changes Ahead?

Will changes be made to the RMD rules this year? Two big retirement bills are in Congress that would do just that – the SECURE Act 2.0 and the EARN Act. (The SECURE Act 2.0 has already been passed by the House of Representatives.) It's too early to tell if any of the RMD changes in the two bills will eventually be enacted into law, but many experts believe that a bipartisan retirement bill has a good chance of getting to President Biden's desk this year.

RMD revisions included in the bill would:

- Raise the age for taking your first RMD to 75;
- Reducing RMD penalties;
- Exempt Roth 401(k) accounts from the RMD rules;
- Easy the RMD rules with respect to annuities in retirement plans;
- Push back the RMD start date for certain surviving spouses; and
- Expand the scope of qualified charitable distributions, which count towards RMDs.

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