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RMD – THE FIRST ONE
By: JOHN MARTENS, CPA

"First ones" are usually easily remembered. There was your "first school", "first kiss", "first car", "first job", etc. There is another important "first one" that I have seen forgotten which can be quite costly.

RMD, for those not familiar, is the abbreviation for "Required Minimum Distribution". Although this normally only concerns folks age 70 1/2, if you happen to be helping a parent or relative that age, you might have an interest as well.

An RMD is a required distribution from your IRA and/or other qualified retirement accounts. Basically, tax law requires that once you reach age 70 1/2, you need to begin taking money out of your qualified accounts. The objective, of course, is so the government can begin collecting tax on those funds that have accumulated tax free for so many years. Understand this is a requirement. Even if you are not in need of the funds, you are required to begin moving money out of the qualified account each year going forward based on a table the IRS provides.

Although the requirement is that the first distribution be taken in the calendar year you reach age 70 1/2, there is an option to defer that first year payment until the subsequent year, as long as it is taken by April 15th of the subsequent year. However, if you do so, you will have two distributions that calendar year because that subsequent year distribution must be taken by that same calendar year end, no extension.

It is important to know that there are heavy penalties for not taking those required distributions on time and the longer you go without taking them, the larger the penalties.

I have seen many instances over the years where people were not aware of this rule. The financial institution where the IRA (or other qualified account) is held is required to notify the individuals at some point during that crucial year (and subsequent years), but unfortunately many times that letter goes unnoticed, or in some cases it is received, but the person does not understand it. You might expect your tax advisor to keep you apprised of this; but if you have not taken distributions prior to reaching that age, your tax preparer may not even be aware you have a qualified account because none of the income from it was taxable in previous years.

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Bottom line – if you are approaching or are at age 70 and you have any IRA or other qualified accounts, check with your tax preparer or your financial advisor to be sure you don't miss this important "first".