



Checking off RMDs on the year-end to-do list

You likely have a lot of things to do between now and the end of the year, such as holiday shopping, donating to your favorite charities and planning get-togethers with family and friends. For older taxpayers with one or more tax-advantaged retirement accounts, as well as younger taxpayers who've inherited such an account, there may be one more thing that's critical to check off the to-do list before year end: Take required minimum distributions (RMDs).

Why is it important to take RMDs on time?

When applicable, RMDs usually must be taken by December 31. If you don't comply, you can owe a penalty equal to 25% of the amount you should have withdrawn but didn't.

If the failure is corrected in a "timely" manner, the penalty drops to 10%. But even 10% isn't insignificant. So it's best to take RMDs on time to avoid the penalty.

Who's subject to RMDs?

After you reach age 73, you generally must take annual RMDs from your traditional (non-Roth):

- IRAs, and
- Defined contribution plans, such as 401(k) plans (unless you're still an employee and not a 5%-or-greater shareholder of the employer sponsoring the plan).

An RMD deferral is available in the initial year, but then you'll have to take two RMDs the next year.

If you've inherited a retirement plan, whether you need to take RMDs depends on various factors, such as when you inherited the account, whether the deceased had begun taking RMDs before death and your relationship to the deceased. When the RMD rules do apply to inherited accounts, they generally apply to *both* traditional *and* Roth accounts. If you've inherited a retirement plan and aren't sure whether you must take an RMD this year, contact us.

Should you withdraw *more* than required?

Taking no more than your RMD generally is advantageous because of tax-deferred compounding. But a larger distribution in a year your tax bracket is low may save tax.

Be sure, however, to consider the lost future tax-deferred growth and, if applicable, whether the distribution could: 1) cause Social Security payments to become taxable, 2) increase income-based Medicare premiums and prescription drug charges, or 3) reduce or eliminate the benefits of other tax breaks with income-based limits, such as the new \$6,000 deduction for seniors.

Also keep in mind that, while retirement plan distributions aren't subject to the additional 0.9% Medicare tax or 3.8% net investment income tax (NIIT), they *are* included in your modified adjusted gross income (MAGI). That means they could trigger or increase the NIIT because the thresholds for that tax are based on MAGI.

Do *you* have to take any RMDs in 2025?

The RMD rules can be confusing, especially if you've inherited a retirement account. If you're subject to RMDs, it's also important to accurately calculate your 2025 RMD. We can help ensure you're in compliance. Please contact us today.