NEW and Permanent Tax Break; Age 70 ½ or Over

Wow! This is a big one. IF you are over the age of 70 ½, taking your Required Minimum Distributions (RMD) from a retirement account, AND you regularly give to charitable causes, please keep reading.

This rule has now been made permanent. If you do not need your RMD for income and want to make a charitable donation OR would like to take your RMD in a more cost-effective (tax-efficient) manner, you now have the opportunity to transfer the retirement distribution directly to your charity of choice without having to report it as income. It is pretty simple; let's say your RMD for year 2016 is $10,000.00. In the past, this $10,000.00 distribution would be considered taxable income. Depending on your current aggregated gross income (AGI), this could require you writing a large check worth hundreds and possibly thousands of dollars to the IRS. Having to include your RMD distribution as income increases your AGI. Many tax breaks are tied to how high your AGI is. With a higher AGI you could potentially lose exemptions, lose deductions, lose tax credits, and be subject to various phase-out restrictions as well as AMT Tax. Also, there is a new 3.8% healthcare tax on investments if your income is too high. Lastly, the premiums you pay on Medicare Part B and D are also directly tied to your AGI. The lowest premium is $121.80 per month and goes up to $389.80 for the higher income person. I recommend working closely with your accountant, CPA, or Turbo Tax help guide to see if you are near a thresh hold where this little tool may help even more.

Required Minimum Distribution (RMD) Reminder:
Most people believe that you need to begin taking your RMD when you turn 70 or 70 ½. You actually do not need to begin taking your first distribution until April 1st of the year following the year you turn 70 ½. The advantage of this, of course, is funds keep working for you into the following year. Example: If you turn age 70 in December of 2015 (70 ½ in June of 2016), you are not required to take your RMD until the following April 1st of year 2017. If you were to postpone taking your RMD, like in this example, your retirement continues to work for you. Note that if you were to postpone taking the RMD in this manner, then you will need to take two distributions in 2017, the year you turn 72 (one before April 1st and one before December 31st). Yes, the IRS has interesting rules regarding their calculations!

Sincerely,

Andrew D. Wade, CFP®
President