

Price & Farrington's Estate and Tax Planning FastFacts

April, 2007

Estate, Tax and Wealth Planning for Advisors and Clients

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IRA Minimum Distribution Rules: A Quick Review + Estate Tax Update

IRA Minimum Distribution Rules: A Quick Review

The problem. Clyde's 70th birthday is in March 2008. The minimum distribution rules for individual retirement accounts require him to start making withdrawals from his IRA in the year he turns 70 1/2.

Clyde's questions. Must I begin to withdraw monthly on January 1, March 1 or September 1? Will the monthly amount be prorated based on the number of months remaining after my birthday in 2008 or six months later, when I'm 70 1/2? Will the minimum distribution calculation be a percentage of my IRA value on January 1, 2008 or September 1, 2008 or December 1, 2008 or some other time?

The answers. The tax code requires you to take "required minimum distributions" ("RMD"s) from your traditional IRA after you turn 70 1/2 years old — and pay income tax on the tax-deferred savings and earnings you withdraw.

You can take the first RMD at any point during the calendar year in which you turn 70 1/2. For your first distribution year, there is also a three month grace period that ends on April 1

of the following year (i.e., the year after the year you turned 70 1/2). So, if you turn 70 1/2 in 2008, you would have to take your first required minimum distribution by April 1, 2009.

For all subsequent years, the deadline is December 31. That means you would have to take another distribution by the end of your second distribution year. In Clyde's case, that would be December 31, 2009. As you consider when to take your first distribution, keep in mind that two sizeable IRA distributions in one year could bump you into a higher income tax bracket. As for the payments involved, you can take your distributions each year any way you like — monthly, in dribs and drabs, or all at the beginning or all at the end of the year.

Go figure. To figure out the amount you're required to withdraw the first year, you would divide the total value of all of your traditional IRAs as of December 31 of the previous year (December 31, 2007 in Clyde's case) by the life-expectancy factor for your age. You can find the appropriate life-expectancy factor in IRS Publication 590 at www.irs.gov under "Forms and Publications". Most people use Table III, the "Uniform Lifetime" Table, on page 102. But if you have named your spouse as the sole beneficiary of your IRA, and he or she is more than ten years younger than you are, use the IRS's Table II, the "Joint Life and Last Survivor Expectancy" Table, on page 88.

Let's say you have \$300,000 in your IRA on December 31, 2007, and you turn 70 1/2 on October 1, 2008. You would divide the account balance by 27.4 — the life-expectancy factor in the Uniform Lifetime Table for age 70, because you turned 70 in the first distribu-



"You have to declare what you rob from the rich, but you can deduct what you give to the poor."

tion year (which, again, would be 2008). The result, \$10,948.91, is the amount you would have to withdraw for the first distribution year, by April 1, 2009. ■

Federal Estate Tax Update

The U.S. Senate just agreed to defer federal estate tax repeal. The Senate recently passed its resolution for the 2008 budget, including an amendment by Senator Max Baucus (D-Mont.) to preserve the estate tax for two extra years. The amendment freezes the 2009 status of the estate tax until 2012, creating a \$3.5 million exemption and a top estate tax rate of 45%. The Senate passed this amendment by a vote of 97 to 1, rejecting amendments that would have increased the exemption to \$5 million and reduced the rate to 35%, and one amendment that would have repealed the estate tax entirely. This bill must still be reconciled with whatever budget legislation the House passes. **Clients should keep their eyes on this uncertain, shifting landscape and work with an estate planning attorney who can help them plan prudently and flexibly.** **GDP**

Thoughts on Life and Money



▶ *Money is a constant worry, but our government is working hard to relieve us of this worry.*

▶ *The futility of riches is stated very plainly in two places: the Bible and your income tax return.*

▶ *If it's true that history repeats itself, where are those 1950 prices?*

▶ *Life is like a taxi: the meter keeps running whether you're going anywhere or not.* **GDP**

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