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What are required minimum distributions (RMDs)?

Traditional IRAs and employer retirement plans such as 401(k)s and 403(b)s offer several tax advantages, including the ability to defer income taxes on both contributions and earnings until they're distributed from the plan.

But, unfortunately, you can't keep your money in these retirement accounts forever. The law requires that you begin taking distributions, called "required minimum distributions" or RMDs, when you reach age 70½ (or in some cases, when you retire), whether you need the money or not. (Minimum distributions are not required from Roth IRAs during your lifetime.)

Your IRA trustee or custodian must either tell you the required amount each year or offer to calculate it for you. For an employer plan, the plan administrator will generally calculate the RMD. But you're ultimately responsible for determining the correct amount. It's easy to do. The IRS, in Publication 590-B, provides a chart called the Uniform Lifetime Table. In most cases, you simply find the distribution period for your age and then divide your account balance as of the end of the prior year by the distribution period to arrive at your RMD for the year.

For example, if you turn 76 in 2016, your distribution period under the Uniform Lifetime Table is 22 years. You divide your account balance as of December 31, 2015, by 22 to arrive at your RMD for 2016.

The only exception is if you're married and your spouse is more than 10 years younger than you. If this special situation applies, use IRS Table II (also found in Publication 590-B) instead of the Uniform Lifetime Table. Table II provides a distribution period that's based on the joint life expectancy of you and your spouse.

If you have multiple IRAs, an RMD is calculated separately for each IRA. However, you can withdraw the required amount from any of your IRAs. Inherited IRAs aren't included with your own for this purpose. (Similar rules apply to Section 403(b) accounts.) If you participate in more than one employer retirement plan, your RMD is calculated separately for each plan and must be paid from that plan.

Remember, you can always withdraw more than the required amount, but if you withdraw less you will be hit with a penalty tax equal to 50% of the amount you failed to withdraw.

Should I delay taking my first RMD?

Your first RMD from a traditional IRA and an employer retirement plan must be taken for the calendar year in which you turn 70-1/2. However, if you're still working, you can delay RMDs from your current employer's plan until the year you retire (but only if allowed by the plan and you are not a 5% owner).

In general, you must take your RMDs no later than December 31 of each calendar year to avoid a serious tax penalty equal to 50% of the amount you failed to withdraw. However, a special rule applies to your first RMD. You have the option of delaying your first distribution until April 1 of the following calendar year.

You might delay taking your first distribution if you expect to be in a lower income tax bracket in the following year, perhaps because you're no longer working or will have less income from other sources. However, if you wait until the following year to take your first distribution, your second distribution must be made on or by December 31 of that same year.

For example, assume you have a traditional IRA and you turn 70½ in 2016. You can take your first RMD during 2016 or you can delay it until April 1, 2017. If you choose to delay your distribution until 2017, you will have to take two required distributions in that year, one for 2016 and one for 2017. This is because your distribution for 2017 cannot be delayed until the following year.

Receiving your first and second RMDs in the same year may not be in your best interest. Since this "double" distribution will increase your taxable income for the year, it will probably cause you to pay more in federal and state income taxes. It could even push you into a higher federal income tax bracket for the year.

In addition, the increased income may result in the loss of certain tax exemptions and deductions that might otherwise be available to you.

Obviously, the decision to delay your first required distribution can be important. Your tax professional can help you decide whether delaying the RMD makes sense for your personal tax situation.

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