For Immediate Release
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2009 Hiatus on Mandatory IRA Withdrawals Contributes to 2010 Penalties

WASHINGTON, DC (April 8, 2011) It's a common misconception that after a certain age you can choose to withdraw from your traditional IRA or leave it to grow. In fact, there is a Required Minimum Distribution (RMD) that a retirement plan owner must withdraw from any traditional IRA (or employer sponsored retirement plan) when he or she reaches the mandatory withdrawal age of 70 ½. The only way to avoid being forced to withdraw money is by continuing to work past this age; but, if the account holder is even a five percent owner of the business sponsoring the retirement plan, waiting for retirement to start taking withdrawals is not an option. Unfortunately, a 2009 hiatus on the RMD wound up causing quite a bit of confusion and some stiff penalties for those who are affected by it.

"Some of my clients who had arranged for the RMD to be automatically deposited into their checking accounts every December deactivated that service in 2009, when the withdrawal was not required," said Linda Seeger, EA, an enrolled agent with Seeger Tax Services, Inc. in Charlevoix, MI. "When 2010 rolled around, they didn't think to restart the withdrawals. I am writing letters to IRS concerning their situations and requesting relief from the penalty."

Enrolled agents report that this flip-flopping of the requirement has been particularly hard on clients who are elderly and do not have family members close by who help them maintain their finances. Some of these clients have no taxable income for the year and would not have had to file, yet now must pay an expensive penalty for something that was entirely unintentional and had no tax consequence.

But how much must the account holder withdraw when the time comes? Calculating the correct amount of the RMD can be complicated. It involves dividing the prior December 31 balance of that IRA or retirement plan account by a life expectancy factor that IRS publishes in three separate tables. An IRA owner must calculate the RMD separately for each IRA that he or she owns, but can withdraw the total amount from one or more of the IRAs.

If this sounds like a splitting headache to you, you may want to consider hiring a licensed tax practitioner to guide you or your elderly friend or relative though the process. IRS Commissioner Douglas Shulman recently stated that there have been around 35,000 changes to the tax code since the year 2000, so unless preparing taxes is your full-time job you may be risking penalties for noncompliance – not to mention missing out on valuable deductions and credits. An enrolled agent (EA) may be able to help. EAs are tax experts licensed by the Department of Treasury who must pass a background check and a stringent three-part exam on taxes to earn the credential. They are also required to complete many hours of continuing education to keep current on the constant changes to the tax code. You can locate an EA in your area in the "Find an Enrolled Agent" directory at www.naea.org.

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