REQUIRED MINIMUM DISTRIBUTIONS & QUALIFIED CHARITABLE DISTRIBUTIONS

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A required minimum distribution (RMD) is the minimum amount of money you must withdraw from pre-tax retirement accounts once you reach a certain age. In 2023, the age at which you must begin taking RMDs was raised to age 73. The year you turn 73, your RMD is due by April 1st of the following year. After that first RMD is taken, all subsequent RMDs are due on December 31st annually. Your RMD amount will change every year. It's based on the prior year-end value of your account divided by a life expectancy factor matching your age. These life expectancy tables can be found on the IRS website. The higher your account balance is, the higher your RMD amount will be. Additionally, as life expectancy declines, the percentage of your assets that must be withdrawn increases.

For example, let's say Bob turned 74 on October 1st and owned an IRA worth $205,000 on December 31st of the prior year. He would divide $205,000 by the distribution factor from the relevant IRS table; in this case, it's 25.5. His minimum amount needed to be withdrawn is $8,039.22. If Bob had multiple IRAs, each RMD would need to be calculated separately. However, he may aggregate the RMD amounts for each and then withdraw the total from one or a portion of the total from each.

As I mentioned, the bigger the account balance, the larger the RMD. This may cause a huge tax burden in retirement that you don't even need income for. You can take a qualified charitable distribution (QCD) to minimize your tax burden. A QCD is a distribution from your IRA to a qualified charity. This type of distribution is not taxed, nor is it included in your taxable income.

If you are of RMD age, you can count a QCD towards your RMD. Even though this is a charitable transaction, you can't itemize a QCD from your taxes like you can other philanthropic contributions. The maximum QCD is $100,000 in 2023 per person. If you file taxes jointly, your spouse can also make a QCD from their own IRA within the same tax year for up to $100,000. This can be one large contribution or several smaller contributions.

RMDs are in place to prevent individuals from avoiding the deferred tax liability on their own retirement contributions—failure to take the RMD results in a 25% penalty on the amount not withdrawn. Setting up systematic withdrawals is a great strategy to ensure you don't incur a penalty because you take a little bit throughout the year. If one of your primary goals is to minimize your tax burden, a QCD is a great option that can be set up systematically. You have to weigh out if you need the income from the RMD or the tax reduction from the QCD.