# Relief from the IRS: Less complex required minimum distribution rules

No more difficult calculations. No more large distributions in excess of need. In an effort to provide relief to retirees, the IRS has released new rules that simplify the process of determining how much of a qualified retirement account or IRA must be withdrawn each year by retirees once they reach age 70 1/2.

Recently released, the new rules substantially liberalize, relax and simplify the often complex and unfriendly tasks associated with determining to whom, how much, and for how long retirement account benefits should be distributed once an account owner reaches his or her "required minimum distribution date."

Although these rules officially are to apply exclusively after 2001, the IRS will allow taxpayers to freely elect to use either the old rules or the new ones in determining 2001 distributions. Most taxpayers in 2001 will benefit by electing to apply the new rules.

***Simplified procedures, lower withdrawal rate.*** The new rules make it much easier for individuals and plan sponsors to understand and apply the minimum distribution rules. They offer simplified procedures for applying the rules, including the calculation of the required minimum distribution during the individual's lifetime and the determination of a designated beneficiary for distributions after death. Most important, however, the new calculation effectively lowers the mandatory withdrawal rate, and therefore the amount of tax that is paid.

***Longer payout periods.*** In most cases, the new method will result in longer payout periods and reduced payment amounts. The life expectancies provided under the new tables have increased, which means distributions are smaller, which means individuals can leave more money in their accounts and postpone taxation. The differences are striking: under the new tables, the required distribution period of a 70-year-old, once 16 years, is now 26.2 years.

Given each yearly adjustment in an individual’s life expectancy under the table, he or she can take minimum distributions for as long as he or she lives, so a participant who doesn’t need the retirement account for support will be able to leave more of it in the account for his or her heirs.

***Estate planning flexibility.*** Although rules currently require an account owner to designate a beneficiary by his required beginning date or death in order to retain all distribution options, the new rules would fix the time for determining the identity of the designated beneficiary at the end of the year following the account owner’s death. This permits a taxpayer to change beneficiaries without affecting his or her minimum required distribution and permits post-death changes in beneficiaries via disclaimers.

***Win, win situation.*** The net result of many of the revisions made by the new rules is to allow funds to remain in tax-deferred accounts much longer than was previously achieved. Distributions are more easily calculated, estate planning is facilitated, and account owners retain more options.

Individuals and plan sponsors, however, are not the only ones who benefit from the new easy-to-apply, uniform standards. Through simplified computations and reporting requirement, the IRS will find it easier to track distributions, including their timing and amounts.

If you are in a situation where these new required minimum distributions rules may apply to you and you would like more information or guidance, please contact the office for assistance.