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RETIREMENT PLAN DISTRIBUTIONS

Your retirement plans and IRAs may be among the largest, if not the largest, asset that you have. Therefore, one of the most important planning areas for you is taking distributions from your IRAs and qualified retirement plans. Understanding the basic tax rules and then planning your distributions to meet your personal financial and estate planning objectives is essential. We can explain those rules and provide some strategies for you to consider as part of your overall tax plan.

Some taxpayers may consider early retirement as a viable option. However, generally, a distribution made before you are 59 ½ years of age is subject to a 10% penalty in addition to the tax otherwise payable on the distribution. There are some exceptions. The penalty may not apply for certain hardship cases, for first-time home buyers, or to pay certain medical or education expenses. Many distributions may be received tax free if they are transferred to an IRA or another eligible plan within 60 days of the distribution.

Though there is a penalty for premature distributions, there is also a penalty for failure to commence distributions by a certain age. Minimum distribution rules are imposed to prevent participants from unreasonably deferring the tax on their retirement savings. Under these rules, distributions are required to begin, for a participant other than a 5-percent owner, no later than April 1 of the calendar year following the later of:

1. the calendar year in which the participant reaches age 70 ½, or
2. the calendar year in which the participant retires.

The minimum distribution rules do not apply to Roth IRAs while the account owner is alive, but do apply to traditional IRAs, deferred compensation plans, tax sheltered annuities, and qualified retirement plans.