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Most Retirees Need to Take Required Retirement Plan Distributions by Dec. 31

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WASHINGTON — The Internal Revenue Service today reminded taxpayers born before July 1, 1944, that they generally must receive payments from their individual retirement arrangements (IRAs) and workplace retirement plans by Dec. 31.

Known as required minimum distributions (RMDs), these payments normally must be made by the end of 2014. But a special rule allows first-year recipients of these payments, those who reached age 70½ during 2014, to wait until as late as April 1, 2015 to receive their first RMDs. This means that those born after June 30, 1943 and before July 1, 1944 are eligible for this special rule. Though payments made to these taxpayers in early 2015 can be counted toward their 2014 RMD, they are still taxable in 2015.

The required distribution rules apply to owners of traditional IRAs but not Roth IRAs while the original owner is alive. They also apply to participants in various workplace retirement plans, including 401(k), 403(b) and 457(b) plans.

An IRA trustee must either report the amount of the RMD to the IRA owner or offer to calculate it for the owner. Often, the trustee shows the RMD amount on Form 5498 in Box 12b. For a 2014 RMD, this amount was on the 2013 Form 5498 normally issued to the owner during January 2014.

The special April 1 deadline only applies to the RMD for the first year. For all subsequent years, the RMD must be made by Dec. 31. So, for example, a taxpayer who turned 70½ in 2013 (born after June 30, 1942 and before July 1, 1943) and received the first required payment on April 1, 2014 must still receive the second RMD by Dec. 31, 2014.

The RMD for 2014 is based on the taxpayer's life expectancy on Dec. 31, 2014, and their account balance on Dec. 31, 2013. The trustee reports the year-end account value to the IRA owner on Form 5498 in Box 5. Use the online worksheets on IRS.gov or find worksheets and life expectancy tables to make this computation in the Appendices to Publication 590.

For most taxpayers, the RMD is based on Table III (Uniform Lifetime) in the IRS publication on IRAs. So for a taxpayer who turned 72 in 2014, the required distribution would be based on a life expectancy of 25.6 years. A separate table, Table II, applies to a taxpayer whose spouse is more than 10 years younger and is the taxpayer's only beneficiary.

Though the RMD rules are mandatory for all owners of traditional IRAs and participants in workplace retirement plans, some people in workplace plans can wait longer to receive their RMDs. Usually, employees who are still working can, if their plan allows, wait until April 1 of the year after they retire to start receiving these distributions. See Tax on Excess Accumulations in Publication 575. Employees of public schools and certain tax-exempt organizations with 403(b) plan accruals before 1987 should check with their employer, plan administrator or provider to see how to treat these accruals.

Find more information on RMDs, including answers to frequently asked questions, on IRS.gov.