



Cherry Tree Wealth Management

REQUIRED MINIMUM DISTRIBUTION

“My 2020 Required Minimum Distribution is No Longer Required - Should I Take it Anyway?”

While the removal of required minimum distributions from IRAs, 401ks and inherited IRAs would have made quite a splash in news coverage in any given year, 2020 has provided many other urgent changes and updates that left the RMD news relatively unheard.

As stated from the changes declared in March of 2020, there is no longer a requirement to make any withdrawals. More simply put, it becomes a choice. For those who do not depend on the money for living expenses and who are in a high-tax bracket in relation to a typical year, it probably makes sense to forgo any distributions until it becomes a requirement again in 2021.

There are a fair number of people that may need or want some of their normal IRA RMD dollars for living expenses. Others may not depend on the funds for living expenses while also being in a lower tax bracket. The decision or choice for these types of situations can be summarized in general by the retiree/client profiles I'll share below.

“I depend on my RMD for expenses and have no other accounts to draw from.”

The answer is simple as the choice is made for you. Continue to take from the IRA for living expenses even though you aren't required to.

“I depend on my RMD for expenses and also have an individual/joint/trust account to draw from.”

The introduction of a second source to fund living expenses creates a more complex mathematical equation to decide where to take the next dollar from. Depending on the other circumstances and the taxable year, it could make sense to take exclusively from the IRA or to realize capital gains taxes and utilize the individual or joint account for any further needs.

“I don't fully depend on my RMD for expenses and have no other accounts to draw from.”

We are now unveiling more potential planning opportunities that requires attention to detail. In this scenario, depending if the marginal tax rate (think last dollar taxed) is appealing or low enough, it could make sense to simply take a withdrawal from your IRA or convert to a Roth IRA. Because Roth conversions do not count towards your RMD in a “normal” year, a conversion could cost more in tax in 2021 & beyond. Depending on the tax rate, a planning idea like this can provide future flexibility to take money from a tax-free account.

“I don't fully depend on my RMD for expenses and also have an individual/joint/trust account to draw from.”

If you've made it this far, the planning possibilities have become much greater. The choice is a bit more complex as there could be a reason to convert to Roth as discussed above or to realize long-term capital gains on purpose depending on the tax-rate (a no-brainer in the 0% federal rate). It is imperative to get a handle on the 2020 tax year before making any decisions but in these scenarios, there can be plenty of excellent opportunities to contemplate. The good news is you don't have to make this decision alone, we are here to help.

While the RMD is no longer required, it can be important to understand if your choice to not take it truly is most advantageous for your present and future financial self. If you'd like to know your specific and tailored answer, give us a call to walk through it together

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