

IRA Issues For Those Over 70 Years Old

Excerpted from IRS Publication 590

It is never too early to consider future cash flows in and out of your IRA, especially since you will no longer have control over these distributions once you are age 70½. For the 70 and over crowd, there are numerous restrictions you need to consider. Note: These restrictions only apply to traditional IRAs, not Roth IRAs.

Contributions to your IRA

Age 70½ rule. Contributions cannot be made to your traditional IRA for the year in which you reach age 70½ or for any later year.

You attain age 70½ on the date that is six calendar months after the 70th anniversary of your birth. If you were born on June 30, 1934, the 70th anniversary of your birth is June 30, 2004, and you attained age 70½ on December 30, 2004. If you were born on July 1, 1934, the 70th anniversary of your birth was July 1, 2004, and you attained age 70½ on January 1, 2005.

Distributions from your IRA

You cannot keep funds in a traditional IRA indefinitely. Eventually they must be distributed. If there are no distributions, or if the distributions are not large enough, you may have to pay a 50% excise tax on the amount not distributed as required. The requirements for distributing IRA funds differ, depending on whether you are the IRA owner or the beneficiary of a decedent's IRA.

Required minimum distribution. The amount that must be distributed each year is referred to as the required minimum distribution.

Distributions not eligible for rollover. Amounts that must be distributed (required minimum distributions) during a particular year are not eligible for rollover treatment.

IRA Owners

If you are the owner of a traditional IRA, you must start receiving distributions from your IRA by April 1 of the year following the year in which you reach age 70½. April 1 of the year following the year in which you reach age 70½ is referred to as the required beginning date.

Distributions by the required beginning date. You must receive at least a minimum amount for each year starting with the year you reach age 70½ (your 70½ year). If you do not (or did not) receive that minimum amount in your 70½ year, then you must receive distributions for your 70½ year by April 1 of the next year.

If an IRA owner dies after reaching age 70½, but before April 1 of the next year, no minimum distribution is required because death occurred before the required beginning date.



Even if you begin receiving distributions before you reach age 70½, you must begin calculating and receiving required minimum distributions by your required beginning date.

More than minimum received. If, in any year, you receive more than the required minimum distribution for that year, you will not receive credit for the additional amount when determining the minimum required distributions for future years. This does not mean that you do not reduce your IRA account balance. It means that if you receive more than your required minimum distribution in one year, you cannot treat the excess (the amount that is more than the required minimum distribution) as part of your required minimum distribution for any later year. However, any amount distributed in your 70½ year will be credited toward the amount that must be distributed by April 1 of the following year.

Distributions after the required beginning date. The required minimum distribution for any year after the year you turn 70½ must be made by December 31 of that later year.

Example.

You reach age 70½ on August 20, 2004. For 2004, you must receive the required minimum distribution from your IRA by April 1, 2005. You must receive the required minimum distribution for 2005 by December 31, 2005.



If you do not receive your required minimum distribution for 2004 until 2005, both your 2004 and your 2005 distributions will be includible on your 2005 return.