



REQUIRED IRA DISTRIBUTIONS
*If you've turned 70 and have a Traditional IRA,
please read this.*

Federal law requires you to withdraw money from Traditional IRAs (and inherited Roth IRAs) at age 70½. (If you don't make a withdrawal, you'll owe a 50% penalty on the amount you should have withdrawn.) If you haven't taken your first required minimum distribution (RMD) yet, here are the basics - and a potential tax break you should know about.

Will you turn 70½ this year? If you will be 70½ somewhere between January and December of this year, you have two options. 1) You can take your initial minimum withdrawal this year. Look at your IRA balance from Dec. 31 of last year, divide it by the proper divisor in Appendix C of IRS Publication 590 (Individual Retirement Arrangements), and withdraw at least that amount by Dec. 31 of this year. 2) Or, you can postpone your first RMD until April 1 of next year - but you'll have to make a second withdrawal from that IRA by Dec. 31 of next year, and that means being taxed twice.

Did you turn 70½ last year? If you haven't taken that first mandatory distribution yet, you must do so by April 1. In fact, you'll have to make two withdrawals in this calendar year. You calculate your initial minimum withdrawal using your IRA balance from Dec. 31 of the year before last year, your age at the end of last year, and the proper divisor in Appendix C of IRS Publication 590. The second withdrawal has to be made by Dec. 31 of this year. You compute that second withdrawal by taking your IRA balance from Dec. 31 of last year and dividing it by the proper divisor in Appendix C, as above. You must withdraw that amount or more by Dec. 31 of this year.

IRA gifts can reduce your taxes. IRA withdrawals are always heavily taxed, at rates up to 35%. But thanks to the Pension Protection Act of 2006, you can now get a "senior discount". If you're 70½ or older, you can make a charitable gift through your IRA. Your IRA trustee can transfer up to \$100,000 of your IRA assets to charity without incurring taxable income. Under the PPA, these charitable gifts count toward your mandatory annual withdrawal if you're 70½ or older. Hypothetically, let's say you're in the 28% tax bracket and you have to withdraw \$20,000 from your IRA this year. If you transfer that \$20,000 to a qualified charitable organization before taking any distribution, you can cut your federal taxes by \$5,600.

Undoubtedly you will have questions about this whole withdrawal procedure. Be cautious before you begin: be sure to speak with a Financial Advisor if you don't already have one.

These views are those of the author and should not be construed as investment advice. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. Please consult your Financial Advisor for further information. This information is based on 2006 tax information.

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