

FAQS ABOUT THE 2009 IRA MINIMUM WITHDRAWAL RULES

In late December 2008, President George W. Bush signed legislation to remove tax penalties for seniors who do not take a minimum withdrawal from their 401(k) and other individual retirement accounts in 2009. The one-year suspension is intended to offer some relief to seniors whose nest eggs have shrunk due to the economic downturn.

Unfortunately, while the new law is certainly helpful, it's also somewhat perplexing—especially for seniors just reaching the required withdrawal age. IRA rules have always been a little complex, and this new bill will only add to the confusion.

If you're a little mystified about how this new law might affect you, read on to find the answers to a few frequently asked questions:

What are the existing IRA rules?

Most years, seniors over 70 ½ are required to take a minimum distribution from their 401(k)s and other individual retirement accounts. However, the rules do not apply to defined-benefit pension plans or Roth IRAs. Additionally, if you are still working, you are not required to withdraw from your current employer's retirement plan.

For your first required withdrawal, the deadline is extended until April 1st of the year after you turn 70½. That means people who turned 70½ in 2007 had until April 1, 2008, to take their first required distribution. Those who turned 70½ in 2008 have until April 1, 2009 to take their first withdrawal.

The amount you are required to withdraw depends on what your account balance was on the previous December 31st. You then divide that amount by your remaining life expectancy, as defined by IRS life expectancy tables.

Taking the distribution can push you into a higher income tax bracket, resulting in more income taxes. However, if you don't take the required distribution, you pay a whopping 50 percent penalty on the amount you were supposed to withdraw.



How will the new bill affect these rules?

The new bill suspends the required IRA withdrawals in 2009. Because seniors will not be forced to take money out of their accounts this year, they will hopefully rebuild some of their asset values. Because you'll have more money in your account this year, you will have more dollars working for you when the stock market rebounds.

If you don't take a distribution from your retirement account this year, the new law will also delay the tax you would have owed on your 2009 withdrawal. This suspension applies to everyone, regardless of your current retirement account balance.

However, unless Congress votes to extend the suspension, withdrawal requirements will recommence in 2010. As of right now, everyone

(Continued on Page 2)

(Continued From Page 1)

who is 70 ½ or older or anyone who has inherited an IRA or 401(k) will be forced to take distributions again next year.

What if I turned 70 ½ in 2008?

The law suspends distributions only for 2009. Therefore, if you turned 70 ½ in 2008 and have yet to take the 2008 distribution, you are still required to make your withdrawal by the April 1, 2009 deadline. To calculate how much you need to withdraw, you should look at your account balance as of December 31, 2007.

What if my 70 ½ birthday is in 2009?

If you turn 70 ½ this year, things get a little more complex. Under the usual rules, people who turn 70 ½ in 2009 have until April 1, 2010 to make their first minimum withdrawal. But because all required withdrawals are suspended for 2009, you can skip this first withdrawal. However, your “second” withdrawal will be due on December 31, 2010.

What if I want to donate money from my IRA to charity?

Under current law, there is tax break for people who make donations directly from their IRA to charity in 2008 and 2009. This law says that people age 70 ½ or older can donate up to \$100,000 from an IRA to a public charity, and no income taxes are due on the withdrawal. Plus, this donation counts as a required annual withdrawal. However, because no withdrawal is required in 2009, some people may skip their donation.



Can I convert my IRA to a Roth IRA this year?

If your adjusted gross income is \$100,000 or less, you can convert some or all of your IRA to a Roth IRA in 2009. Most years, seniors who take a required distribution from a traditional IRA cannot use that money to fund a Roth IRA. However, because there are no distribution requirements in 2009, you can use IRA withdrawals to fund a Roth or for any other purpose.

CONTACT US

- ▶ PHONE: 480.991.1055
- ▶ EMAIL: INFO@GRANDCANYONPLANNING.COM

WWW.GRANDCANYONPLANNING.COM

GCPA
GRAND CANYON PLANNING ASSOCIATES, LLC