

# Resume RMDs from Retirement Plans

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Unlike the past year, retirees may have to take required minimum distributions (RMDs) from their 401(k) and traditional IRAs before the end of the year. The one-year reprieve from this obligation is over. Now it's back to business as normal for retirement-savers.

Distributions from qualified retirement plans and IRAs are taxed at ordinary income rates reaching as high as 35% in 2010. In addition, you must pay a 10% penalty tax on distributions prior to age 59½, unless a special exception applies. (On the other hand, RMDs are not required for Roth IRAs.)

Usually, you must begin taking RMDs no later than April 1 of the year following the year you turned age 70½. For instance, if you turned age 70½ this year, the first distribution must occur by April 1, 2011.

However, there is an exception to these rules if you are still working on a full-time basis and you are not a 5%-or-more owner of the employer. In this case, you can postpone RMDs until your retirement.

To soften the impact of the economic downturn, a 2008 law temporarily suspended the RMD rule for IRAs and defined contribution plans—such as 401(k) and 403(b) plans—for the 2009 tax year. Now that the one-year waiver has expired, you must resume taking RMDs for 2010. The one-year waiver did not apply to participants in defined benefit plans such as pension plans.

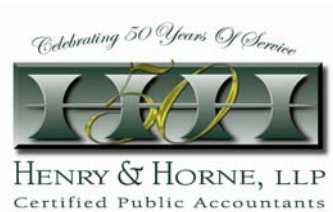
How much do you have to withdraw? The amount of the annual RMD is based on IRS life expectancy tables for the participant and the value of the account on the last day of the previous year. In other words, your RMD for the 2010 tax year depends on your balance as of December 31, 2009—even though you are taking it almost one year later.

If you fail to comply with the rules, the IRS may impose a harsh penalty equal to 50% of the amount that should have been withdrawn (or the difference between the required amount and a lesser amount actually withdrawn). The penalty is added to the regular income tax due for the RMD.

Do not leave things to chance. Consult your professional adviser regarding the rules for distributions from qualified retirement plans and IRAs.

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