

# When Do I Start Taking My Required Minimum Distribution?

By: Exchange Capital Management

June 15<sup>th</sup>, 2023



Unfortunately, you can't enjoy tax-deferred growth forever. Owners of tax-deferred retirement accounts must start withdrawing a minimum amount every year beginning at a certain age, otherwise known as their Required Minimum Distribution (RMD). Pinpointing the exact date you must start your RMDs and the annual deadlines that follow is essential to avoid steep penalties.

## What Is My Required Beginning Date?

The Required Beginning Date (RBD) refers to the date when the first distribution must be withdrawn. Over the years, legislative changes have pushed back the age at which individuals are required to take their initial distribution. The age you are required to start distributions relies on your birthdate:

- Individuals born between January 1st, 1951, to December 31st, 1959, must start distributions at age 73
- Individuals born on or after January 1st, 1960, must start distributions at age 75

For most owners of Traditional, SEP, or SIMPLE IRA accounts, the RBD falls on April 1st, following the year they turn 73 (or 75). For instance, an individual turning 73 in 2023 would have until April 1st, 2024, to withdraw their first distribution.

Although April 1st is the deadline to withdraw the first distribution, you have the flexibility to take it at any time during the year you reach RMD age. For instance, if you turn 73 in May 2023, you can withdraw your first distribution anytime from January 1st, 2023 - April 1st, 2024.

We often recommend taking your first distribution sooner rather than later. The subsequent years after reaching RMD age will have an annual deadline of December 31st. By waiting to take your first distribution until April 1st of the following year, you will have to take two required distributions in one year: one in April and one in December. Try to avoid this as the extra income can lead to unnecessary taxes.

## **Employer-sponsored Retirement Plans**

The same RMD rules generally apply to individuals with employer-sponsored plans unless they qualify for an exception. To be eligible for this exception, you must:

- Have an employer-sponsored plan with the company.
- Be employed for the entire calendar year.
- NOT own the company you work for. If you do own the company, you must own less than 5% of the business.

If you meet these criteria, you may be able to delay your RMD until April 1st of the year following your retirement. As stated above, try to take your first distribution in the calendar year you are eligible, rather than delaying.

## **The Bottom Line**

As an owner of a tax-deferred retirement account, it is crucial to have a clear understanding of the rules associated with RMDs. After your first distribution, you must withdraw the minimum amount on time every year. Missing even one of these deadlines can lead to hefty penalties.