



## **Estate Planning Pitfall You don't take required minimum distributions**

If you don't need your traditional IRA funds to live on during retirement, you may be focused on building up this nest egg for your children and be tempted to avoid taking any withdrawals from it. After all, the larger your IRA is, the larger your children's inheritance will be, right?

Unfortunately, this isn't necessarily the case. After age 70<sup>1/2</sup> you must take required minimum distributions (RMDs) annually. If you don't, you'll owe a 50% penalty on the amount you should have taken but didn't – in addition to any ordinary income tax you owe. So, for example, if your RMD was \$12,000 for a given calendar year, you would owe a \$6,000 penalty. That's \$6,000 that would go to Uncle Sam rather than to a loved one.

A better option can be to take the RMD, pay the ordinary income tax on it and make a \$12,000 annual exclusion gift to your child. Not only do you avoid the penalty and remove \$12,000 from your taxable estate, but your payment of the income tax on the distribution is effectively a transfer-tax-free gift to your child. Why? Because if your child instead withdrew the \$12,000 after inheriting the account, he or she would owe income tax on the withdrawal.

With proper planning, you can make RMDs work for, not against, you and your family. So be sure to consult with your tax professional to determine the amount of your RMDs.

*For more information, please contact us via phone or e-mail, or visit us on the World-Wide Web:*

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