This Quarter's Highlights

- Retirement Account Rules After Age 70 ½
- Determining Your Required Minimum Distribution (RMD)
- Charitable IRA Rollover
- Retirement Account Distributions and the Net Investment Income Surtax
- 2017 Important Financial Data

Kanawha Currents

Retirement Account Rules After Age 70 ½

The rules governing retirement account contributions and distributions often change for individuals age 70 ½ and older. Owners of IRAs and participants in employer sponsored retirement plans should familiarize themselves with these changes as they approach age 70 to maximize retirement savings and avoid surprises. Rules vary based on the type of retirement account and whether the individual is working or retired. Account owners should also have a basic understanding of how required minimum distributions (RMDs) are determined and what tax implications they might have.

Traditional IRAs

Traditional IRA owners have to begin taking RMDs once they reach 70 ½. This is true even if they are still working and have earned income. Contributions are no longer permitted in the year one attains 70 ½, even if they continue to have earned income. Note this is not the case for SEP IRAs, SIMPLE IRAs, and many qualified employer sponsored retirement plans.

Roth IRAs

Owners of Roth IRAs do not have to take annual RMDs after reaching age 70 ½. Also, working individuals with earned income are eligible to contribute to Roths after 70 ½ if their modified adjusted gross income falls below the normal thresholds ($196,000 for Joint filers and $133,000 for Single filers).

Traditional 401(k), 403(b) and Other Qualified Retirement Plans

Participants of 401(k) and other qualified retirement plans who are over age 70 ½ and still working are generally able to continue contributing to their plans, subject to plan specific restrictions. If they are still working and over 70 ½, they may also be able to avoid plan RMDs if they are employed throughout the year, do not own more than 5% of the company, and their plan document permits delayed RMDs.

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SEP and SIMPLE IRAs

Owners of SEP and SIMPLE IRAs who are over age 70 ½ and still working are generally able to continue their "employer" contributions. Like Traditional IRAs, they still must take RMDs after 70 ½, even if they are still working and making their "employer" contributions.

Determining Your Required Minimum Distribution

Traditional IRA owners have to begin RMDs once they reach 70 ½. An initial RMD does not need to be withdrawn from the account until April 1 following the year in which the owner turns 70 ½. But this doesn't mean he or she should wait until the next year to take this first RMD. Doing so may significantly increase taxable IRA distributions by combining two years' worth of RMDs into one.

For example, if Peter turns 70 on February 5, 2017, he must take an RMD for 2017. Because it is his first RMD, he can defer this distribution until April 1 of 2018. But he should be aware that he will most likely need to take an RMD for 2018 as well. So, unless there is a tax reason to defer his initial RMD to the next year (e.g. he is retiring and expects his earned income to be significantly less in 2018), he should strongly consider taking his initial RMD in 2017.

The amount of a given year's required distribution depends on the value of the account and the age of the owner. To determine the amount of an RMD, one must take the value of his or her IRA(s) on December 31 of the preceding year and then divide this by their life expectancy from the applicable IRS table. From our first example, let's assume Peter has an IRA value of $1,000,000 on December 31, 2016. Unlike the IRA value which is taken from the preceding year-end, Peter's life expectancy is determined by his age on December 31 of the current year. Unless Peter's spouse is more than 10 years younger than he is, he will use the Uniform Lifetime table which shows his life expectancy to be 27.4 years (note if Peter were 71 at the end of 2017, his life expectancy would be 26.5 years). He then simply divides his IRA value of $1,000,000 by 27.4 to get an RMD amount of $36,496. Subsequent annual RMDs are determined by applying this same formula.

IRS Uniform Lifetime Table

Age	Distribution Period	%	Age	Distribution Period	%
70	27.4	3.6	93	9.6	10.4
71	26.5	3.8	94	9.1	11.0
72	25.6	3.9	95	8.6	11.6
73	24.7	4.0	96	8.1	12.3
74	23.8	4.2	97	7.6	13.2
75	22.9	4.4	98	7.1	14.1
76	22	4.5	99	6.7	14.9
77	21.2	4.7	100	6.3	15.9
78	20.3	4.9	101	5.9	16.9
79	19.5	5.1	102	5.5	18.2
80	18.7	5.3	103	5.2	19.2
81	17.9	5.6	104	4.9	20.4
82	17.1	5.8	105	4.5	22.2
83	16.3	6.1	106	4.2	23.8
84	15.5	6.5	107	3.9	25.6
85	14.8	6.8	108	3.7	27.0
86	14.1	7.1	109	3.4	29.4
87	13.4	7.5	110	3.1	32.3
88	12.7	7.9	111	2.9	34.5
89	12	8.3	112	2.6	38.5
90	11.4	8.8	113	2.4	41.7
91	10.8	9.3	114	2.1	47.6
92	10.2	9.8	115 and over	1.9	52.6

For use by: Unmarried owners, married owners whose spouses are not more than 10 years younger, and married owners whose spouses are not the sole beneficiaries of their IRAs.

Source: www.irs.gov

Note that minimum distribution rules for beneficiaries are often different than they are for the original owners. Spouses who are sole beneficiaries are afforded the benefit of taking ownership of the IRA and continuing to use the less onerous Uniform Lifetime table. Non-spouse beneficiaries who aim to *stretch* the distributions over their lifetimes must refer to the Single Life table, which uses shorter life expectancies (and thus higher withdrawal rates). Also, non-spouse beneficiaries only refer to the table for one year. Each subsequent year, they simply subtract 1 from the preceding year's life expectancy to get the current year's divisor.

Charitable IRA Rollover

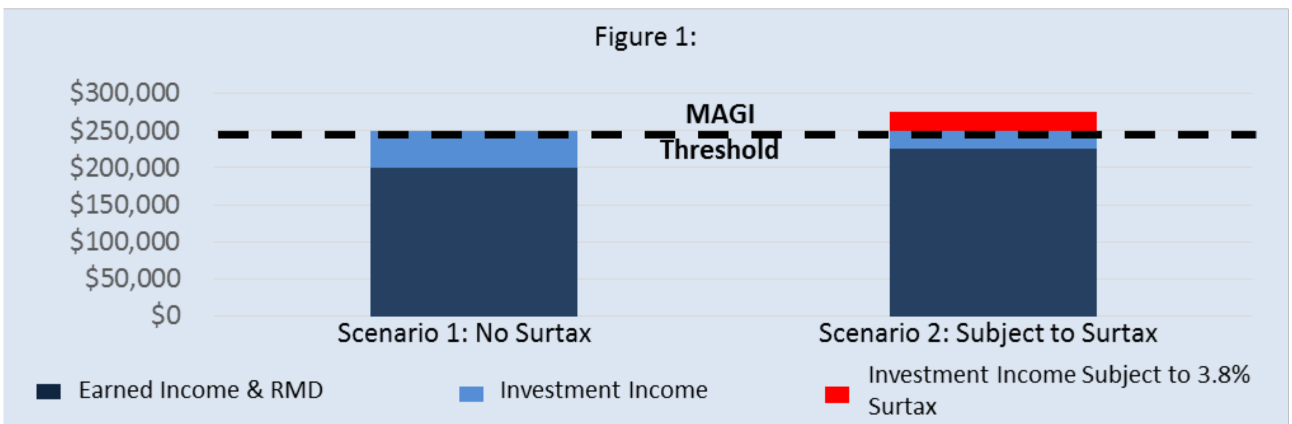
IRA owners age 70½ and older are allowed to make gifts up to $100,000 directly from their IRA to qualified charities and count these gifts towards their RMD. The donation is not claimed as a charitable deduction but the IRA distribution does not count as taxable income as it would otherwise be treated. This ensures 100% of the charitable contribution is made pre-tax.

Charitable IRA rollovers may be especially appropriate for higher income IRA owners who already make charitable contributions and are over 70 ½. Since many higher income individuals over 70 ½ are subject to paying larger Medicare premiums, satisfying charitable contributions directly from their IRAs can be an effective way to reduce their modified adjusted gross income. As such, this strategy could potentially soften the impact of the Income Related Monthly Adjustment Amount (IRMAA) on Medicare B and D premiums for higher income enrollees.

Retirement Account Distributions and the Net Investment Income Surtax

The Medicare surtax of 3.8% on Net Investment Income applies to those individuals with MAGI exceeding $200,000 ($250,000 for joint filers). The law explicitly excludes taxable distributions from retirement accounts such as IRAs and 401(k)s as well as Roth Conversions. The reality, however, is that distributions from such accounts may indirectly cause taxpayers to be impacted by the surtax.

For example, assume John and Jane Doe have $200,000 of earned income and $50,000 of investment income. In this case, none of their investment income would be subject to the surtax since their MAGI falls just below the $250,000 threshold (Figure 1, Scenario 1). Now let's assume they were forced to withdraw $25,000 from John's IRA due to a required minimum distribution at age 70 ½. Even though the distribution itself is not subject to the surtax, the distribution is included in their AGI and pushes $25,000 of their investment income above the threshold (Figure 1, Scenario 2). Therefore, this $25,000 is now subject to the surtax of 3.8%, resulting in an incremental tax cost of $950.



The information contained herein is intended to be for illustrative purposes only and should not be interpreted as advice. The examples are basic in nature and do not factor in all important rules and tax considerations. Please consult your tax professional for specific tax advice about your personal situation. Employer sponsored retirement plans may be subject to different rules contained in the Summary Plan Description.

2017 Important Financial Data

2017 Tax Rate Schedule	
Taxable Income	Marginal Rate
Single	
$0 to $9,325	10%
$9,326 to $37,950	15%
$37,951 to $91,900	25%
$91,901 to $191,650	28%
$191,651 to $416,700	33%
$416,701 to $418,400	35%
$418,401 +	39.6%
Married Filing Jointly & Surviving Spouse	
$0 to $18,650	10%
$18,651 to $75,900	15%
$75,901 to $153,100	25%
$153,101 to $233,350	28%
$233,351 to $416,700	33%
$416,701 to $470,700	35%
$470,701 +	39.6%
Head of Household	
$0 to $13,350	10%
$13,351 to $50,800	15%
$50,801 to $131,200	25%
$131,201 to $212,500	28%
$212,501 to $416,700	33%
$416,701 + $444,550	35%
$444,551 +	39.6%
Married Filing Separately	
$0 to $9,325	10%
$9,326 to $37,950	15%
$37,951 to $76,550	25%
$76,551 to $116,675	28%
$116,676 to $208,350	33%
$208,351 to $235,350	35%
$235,351 +	39.6%
Estates and Trusts	
$0 to $2,550	15%
$2,551 to $6,000	25%
$6,001 to $9,150	28%
$9,151 to $12,500	33%
$12,501 +	39.6%

Capital Gains Tax Rates	
Short-term (held 1 year or less)	Same as ordinary income
Long-term (held > 1 year):	
If income falls in 10% or 15% brackets	0%
If income falls in 25%,28%,33%, or 35% brackets	15%
If income falls in 39.6% bracket	20%
Unrecaptured gains on Section 1250 property	25%
Collectibles	28%
Qualified Dividend Income Tax Rates	
If income falls in 10% and 15% brackets	0%
If income falls in 25%,28%,33%, and 35% brackets	15%
If income falls in 39.6% bracket	20%
Income Tax Deductions and Exemptions	
Standard Deduction	
Single	$6,350
Married filing jointly	$12,700
Head of household	$9,350
Over age 65 or blind additional standard deduction	
Married or surviving spouse	$1,250
Single or not a surviving spouse	$1,550
Itemized deduction may be reduced by 3% of every dollar that exceeds certain AGI thresholds	
Personal exemption	$4,050
Personal exemption may be reduced by 2% for every $2,500 that exceeds certain AGI thresholds	
Retirement Plan Contribution Limits	
401(k), 403(b), 457 plans elective deferrals	$18,000
Catch-up contributions for 50 and older	$6,000
Defined contribution plans	$54,000
Defined benefit plans	$215,000
SIMPLE plans elective deferrals	$12,500
Catch-up contributions for 50 and older	$3,000
Traditional and Roth IRA	$5,500
Catch-up contributions for 50 and older	$1,000
Traditional IRA deductibility for active participants	Phaseout Limits:
Single	$62,000 to $72,000
Joint	$99,000 to $119,000
Spousal IRA if one spouse is covered by a plan	$186,000 to $196,000
Married filing separately	$0 to $10,000
Roth IRA income phaseout	
Single	$118,000 to $133,000
Joint	$186,000 to $196,000
Married filing separately	$0 to $10,000

Estate and Gift Tax	
Annual gift tax exclusion	$14,000
Estate and gift tax exclusion	$5,490,000
Maximum estate tax rate	40%

Medicare Surtaxes

0.9% on wages that exceed $200,000 (single filers) or $250,000 (joint filers)

3.8% on net investment income that falls above MAGI of $200,000 (single filers) or $250,000 (joint filers)

Medicare

Part A Hospitalization	
First 60 days inpatient deductible	$1,316 for each benefit period
Days 61 - 90	$329 per day, for each benefit period
Days 91 +	$658 per day, up to 60 days over lifetime, then full amount per day

Part B Premium: Many people will pay a monthly premium of approximately $109. Others who enroll for the first time in 2017, whose MAGI from 2015 exceeded certain thresholds, or who don't get Social Security benefits may be subject to the premiums below.

MAGI Single (for *2015*)	MAGI Joint (for *2015*)	Part B Monthly Premium	Part D Addition to Plan Premium
$85,000 or less	$170,000 or less	$134.00	$0
$85,001 to $107,000	$170,001 to $214,000	$187.50	$13.30
$107,001 to $160,000	$214,001 to $320,000	$267.90	$34.20
$160,001 to $214,000	$320,001 to $428,000	$348.30	$55.20
$214,001 +	$428,001 +	$428.60	$76.20

Part B Deductible	$183
Coinsurance	20% of Medicare-approved amount for most services

Long Term Care Insurance: Potential Deductibility of Premiums for Qualified Policies (medical expenses are subject to % of AGI thresholds)

Age	Amount of premium that may be treated as "medical care"
40 or less	$410
41 to 50	$770
51 to 60	$1,530
61 to 70	$4,090
71 +	$5,110

Source: www.irs.gov, IRS Rev. Proc. 2016-55, IR-2016-141, Centers for Medicare & Medicaid Services.
The data contained on this sheet is for informational purposes only and should not be interpreted as tax or investment advice.
Consult your tax professional for specific advice about your personal situation.