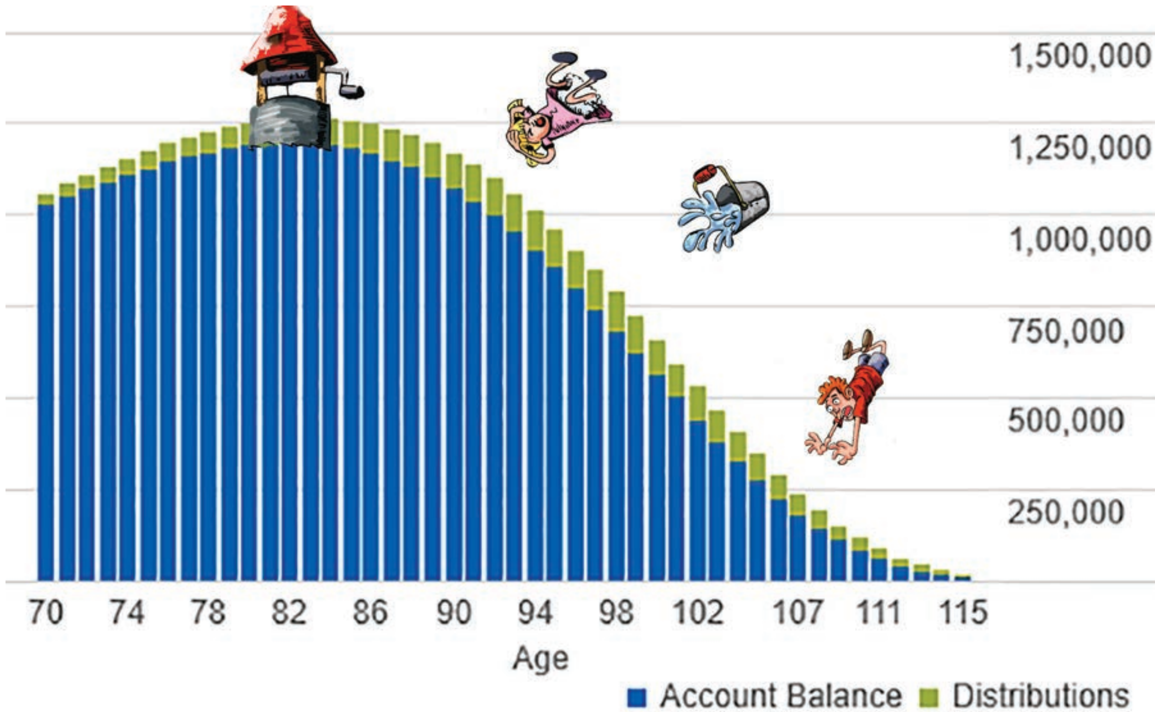
# The Hill and Your IRA and the 50% Penalty

Jack Davidson




JACK AND JILL WENT UP THE HILL TO FETCH A PAIL OF WATER;
JACK FELL DOWN AND BROKE HIS CROWN, AND JILL CAME TUMBLING AFTER.

I am a tax advisor to my twin sister, Jill. Thus, I worry about the metaphorical hill, the powers to be that might punish me when I fetch our water, and the impact on both of us.

I am now personally climbing the hill more often once we reached 70 ½. We both need to climb the hill and get our RMDs, also known as the Required Minimum Distribution, from our IRAs. But what would happen if we did not fill the pail in the required amounts? We will tumble down, and the question that haunts me is, why should I have to break my crown? It seems patently unfair. If I don't take out enough, the penalty is 50%. But what about my sister? Will the IRS break her crown if she is 5 days late? It will be a 50% penalty of the water left in the pail.

At the Trust Company of Vermont, you will find many editions of Natalie Choate's *Life and Death Planning for Retirement Benefits: The Essential Handbook for Estate Planners*. Natalie is a member of the law firm Nutter, McClennen & Fish LLP, and she is widely known in this field of expertise as "the" expert. In 2016, Natalie was featured in an article in the Wall Street Journal when she was about to turn 70 ½ . The main thesis of the article is that Natalie had several different types of IRA accounts and the RMD is based on the value of all the accounts. As an estate planner, she pointed out how complex it was for her because she has the option of withdrawing all the RMD from just one account. In 2018, Natalie reported that she did not withdraw all of the required RMD for 2017 and faced the 50% penalty.

In the estate planning world, complex plans to save estate taxes are now infrequent simply because the exemption is so high. But IRA planning is growing by leaps and bounds, in part because the pension world started to disappear beginning in the early 70s. So the leaps and bounds are all going up the hill and the hills keep getting bigger. Now we are seeing million dollar IRAs. So let's take a look at a hypothetical Jill (not my sister...another Jill) and the approximate required RMD, assuming a 6% rate of growth on a million dollar IRA:

| Age | RMD | Penalty |
|---|---|---|
| 70 ½ | $36,000 | $18,000 |
| 80 | $60,000 | $30,000 |
| 90 | $93,000 | $46,500 |

Who will be watching Jill when she turns 90, if she needs watching? What happens if I am watching her? Why do the IRS and our federal legislators break our crowns? The penalties for late filing personal income and estate tax returns are much less. But at TCV we don't go political. That said, we can give you the phone numbers to call your federal legislators.

At the Trust Company of Vermont we constantly monitor the RMDs. Recently we introduced a program to allow IRA owners who have reached 70½ to make charitable contributions from their IRA, and receive a charitable deduction even if they take the standard deduction. Each check to a qualified non-profit is counted towards the RMD. We produce the checks, which allows us to monitor the amounts paid to avoid the penalty, and then we send them to the owner to forward to the charities.

How did Natalie break her crown in 2017 when she did not withdraw enough of her RMD? She started using a program similar to ours where the IRA trustee sent her the checks to forward to the charity. One $500 check to a charity had never been cashed, and the Trustee had stopped payment on the check and restored the $500 to her IRA. Our program does not restore the check to the account, although we will replace the check. Fortunately, Natalie paid 9 different charities so she only had to pay a $250 penalty.


Monitoring RMDs is stressful. Our client may have one or two IRAs elsewhere that need to be factored into the withdrawal plan. So, we are looking at the Hill once again, and considering options to facilitate procedures for those interested in charitable giving directly from their IRAs. We are at the stage of monitoring, and avoiding tumbling, if too little is withdrawn before year end.

*"Let's just say you both went up this hill to fetch a pail of water, then Jack fell down and broke his crown, and you, Jill, came tumbling after. With this policy, you'd be covered for that."*

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