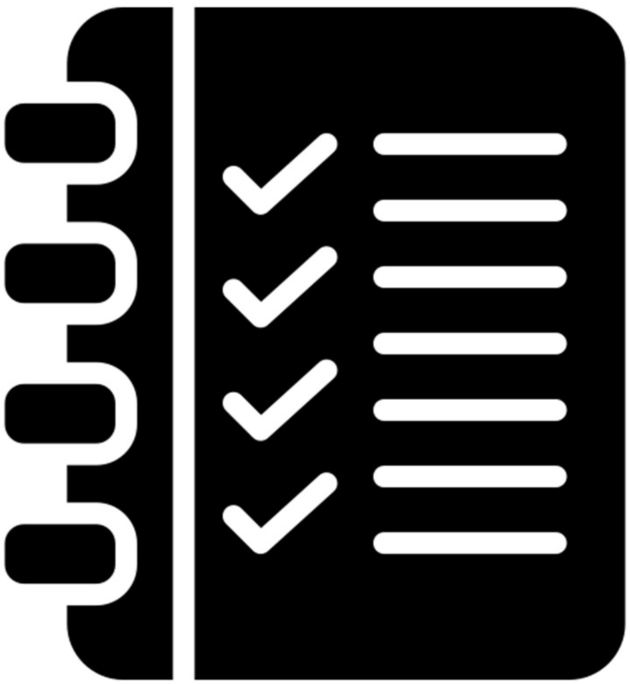
IRA Distributions

OVERVIEW OF TRADITIONAL IRA DISTRIBUTIONS

What We'll Cover



- When money can be distributed
- Tax consequences of IRA distributions
- What distributions result in early distribution penalty
- Required minimum distributions (RMDs)
- Penalty for failing to take an RMD
- Reporting requirements for early and normal distributions

Traditional IRA Distributions

< Age 59½

- Taxable (typically)
- 10% penalty (unless an exception applies)

Age 59½ - Age 72

- Taxable (typically)
- No early withdrawal penalty

Age 73 and Older

- Taxable (typically)
- Required minimum distributions (RMDs)

Calculating the Nontaxable Portion

$$\frac{\text{Aggregate Basis}}{\text{Aggregate IRA Balance}} \times \text{Distribution Amount} = \text{Amount Excluded}$$

Aggregate basis is the total of all nondeductible Traditional IRA contributions and nontaxable amounts included in rollovers made to Traditional IRAs minus the total of all nontaxable distributions already received and excluded from income.

Aggregate balance is the total balance of all the IRA owner's Traditional (including those that have received SEP contributions) and SIMPLE IRAs as of the end of the year of the distribution, plus any distributions occurring during the year.

NOTE: These amounts are determined by the IRA owner on IRS Form 8606, *Nondeductible IRAs* (IRA trustees/custodians do not track these amounts). This formula is only needed if the IRA owner has made nondeductible contributions or received rollovers of after-tax contributions to any of their Traditional IRAs over the years.

Calculating the Nontaxable Portion

Example: Since 1989, when Theresa established her Traditional IRA, she has made a total of $20,000 of nondeductible contributions. On February 8, 2026, she withdrew a gross distribution amount of $10,000. Her total IRA balance in all her IRAs (i.e., Traditional and SIMPLE) as of December 31. 2026, is $90,000. Theresa calculates the nontaxable portion of her 2026 distribution as follows.

$$\frac{\text{Aggregate Basis}}{\text{Aggregate IRA Balance}} \times \text{Distribution Amount} = \text{Amount Excluded}$$

$$\frac{\$20{,}000}{\$100{,}000} \times \$10{,}000 = \$2{,}000$$

How Are Distributions Taxed?

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a Form W-2, see instructions.

Attach Sch. B if required.

Standard Deduction for—

1a	Total amount from Form(s) W-2, box 1 (see instructions)					1a	
b	Household employee wages not reported on Form(s) W-2					1b	
c	Tip income not reported on line 1a (see instructions)					1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)					1d	
e	Taxable dependent care benefits from Form 2441, line 26					1e	
f	Employer-provided adoption benefits from Form 8839, line 29					1f	
g	Wages from Form 8919, line 6					1g	
h	Other earned income (see instructions)					1h	
i	Nontaxable combat pay election (see instructions)	1i					
z	Add lines 1a through 1h					1z	
2a	Tax-exempt interest	2a		b	Taxable interest	2b	
3a	Qualified dividends	3a		b	Ordinary dividends	3b	
4a	IRA distributions	4a		b	Taxable amount	4b	
5a	Pensions and annuities	5a		b	Taxable amount	5b	
6a	Social security benefits	6a		b	Taxable amount	6b	

Early Distribution Penalty

Why?

- Discourages individuals from taking early distributions

How much?

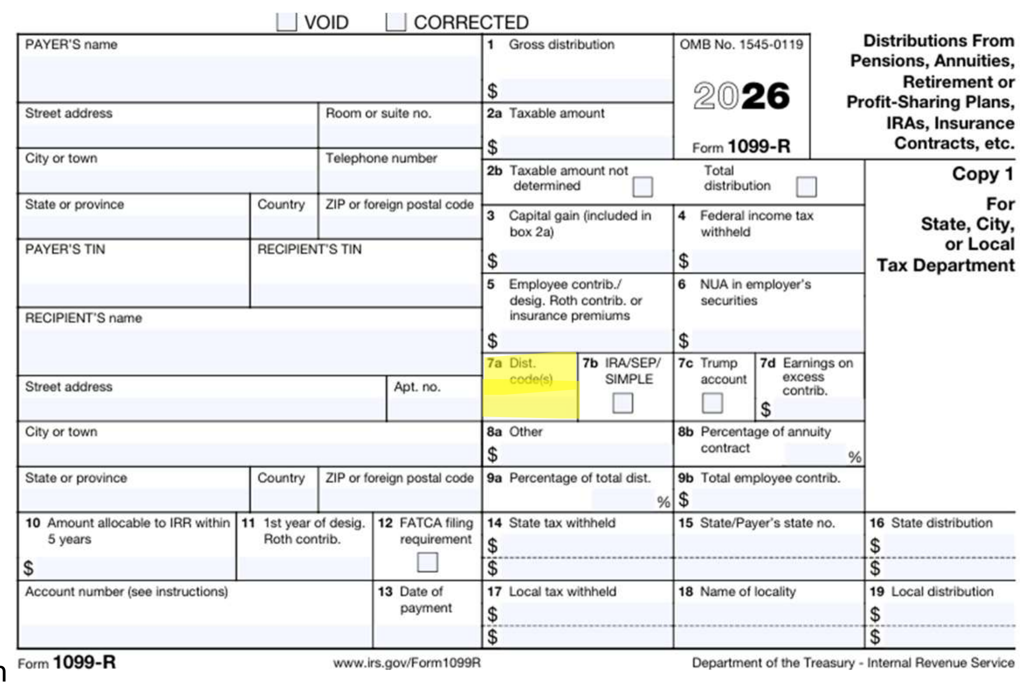
- 10 percent

Early Distribution Penalty Exceptions

Death	Disability	IRS levy	72(t) payments	First home purchase
Birth or adoption	Higher education	Health insurance for unemployed	Reservist distributions	Unreimbursed medical expenses
Terminal illness	Domestic abuse	Emergency expenses	Federally-declared disasters	

Reporting Early Distributions Form 1099-R

- **Code 1** – When Code 2, 3, or 4 don't apply. Use even if one of the following exceptions apply:
  - Medical expenses
  - Health insurance premiums
  - Qualified higher education expenses
  - Qualified reservist distributions
  - First-time home buyer
  - Terminally ill individual distribution
  - Emergency personal expense distribution
  - Domestic abuse victim distribution
  - Qualified birth or adoption distribution
- **Code 2** – Direct conversion, substantially equal periodic payments, or IRS levy
- **Code 3** – Disability (only if proper documentation received from physician, many use Code 1 and IRA owner will claim exception)
- **Code 4** – Death distribution paid to a beneficiary


VOID CORRECTED

PAYER'S name
Street address | Room or suite no.
City or town | Telephone number
State or province | Country | ZIP or foreign postal code
PAYER'S TIN | RECIPIENT'S TIN
RECIPIENT'S name
Street address | Apt. no.
City or town
State or province | Country | ZIP or foreign postal code
10 Amount allocable to IRR within 5 years $ | 11 1st year of desig. Roth contrib. | 12 FATCA filing requirement
Account number (see instructions) | 13 Date of payment

1 Gross distribution $
2a Taxable amount $
2b Taxable amount not determined | Total distribution
3 Capital gain (included in box 2a) $ | 4 Federal income tax withheld $
5 Employee contrib./desig. Roth contrib. or insurance premiums $ | 6 NUA in employer's securities $
7a Dist. code(s) | 7b IRA/SEP/SIMPLE | 7c Trump account | 7d Earnings on excess contrib. $
8a Other $ | 8b Percentage of annuity contract %
9a Percentage of total dist. % | 9b Total employee contrib. $
14 State tax withheld $ $ | 15 State/Payer's state no. | 16 State distribution $ $
17 Local tax withheld $ $ | 18 Name of locality | 19 Local distribution $ $

OMB No. 1545-0119
2026
Form 1099-R

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

Copy 1
For State, City, or Local Tax Department

Form 1099-R www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

Reporting Early Distributions
Form 5329

Form **5329**

Department of the Treasury
Internal Revenue Service

Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.

Go to *www.irs.gov/Form5329* for instructions and the latest information.

OMB No. 1545-0074

2025

Attachment Sequence No. **29**

Name of individual subject to additional tax. If married filing jointly, see instructions. | **Your social security number**

Fill in Your Address Only if You Are Filing This Form by Itself and Not With Your Tax Return

Home address (number and street), or P.O. box if mail is not delivered to your home | Apt. no. | If this is an amended return, check here ☐

City, town or post office, state, and ZIP code. If you have a foreign address, also complete the spaces below. See instructions.

Foreign country name | Foreign province/state/county | Foreign postal code

If you **only** owe the additional 10% tax on the full amount of the early distributions, you may be able to report this tax directly on Schedule 2 (Form 1040), line 8, without filing Form 5329. See instructions.

Part I **Additional Tax on Early Distributions.** Complete this part if you took a taxable distribution (other than a qualified disaster recovery distribution) before you reached age 59½ from a qualified retirement plan (including an IRA) or modified endowment contract (unless you are reporting this tax directly on Schedule 2 (Form 1040)—see above). You may also have to complete this part to indicate that you qualify for an exception to the additional tax on early distributions or for certain Roth IRA distributions. See instructions.

1	Early distributions includible in income (see instructions). For Roth IRA distributions, see instructions .	**1**	
2	Early distributions included on line 1 that are not subject to the additional tax (see instructions). Enter the appropriate exception number from the instructions: ______	**2**	
3	Amount subject to additional tax. Subtract line 2 from line 1	**3**	
4	**Additional tax.** Enter 10% (0.10) of line 3. Include this amount on Schedule 2 (Form 1040), line 8 . .	**4**	
	Caution: If any part of the amount on line 3 was a distribution from a SIMPLE IRA, you may have to include 25% of that amount on line 4 instead of 10%. See instructions.		

- IRAs were designed to encourage tax-deferred savings for retirement, NOT to permanently shelter assets from taxation
- Therefore, IRA owners must begin taking mandatory RMDs from their Traditional IRAs (including SEP and SIMPLE IRAs) at a certain age

Why RMDs?

RMD Starting Age

1974–2019

- Age 70½

SECURE Act of 2019

- Age 72 (effective 1/1/2020)

SECURE 2.0 Act of 2022

- Age 73 (effective 1/1/2023)
- Age 75 (effective 1/1/2033)

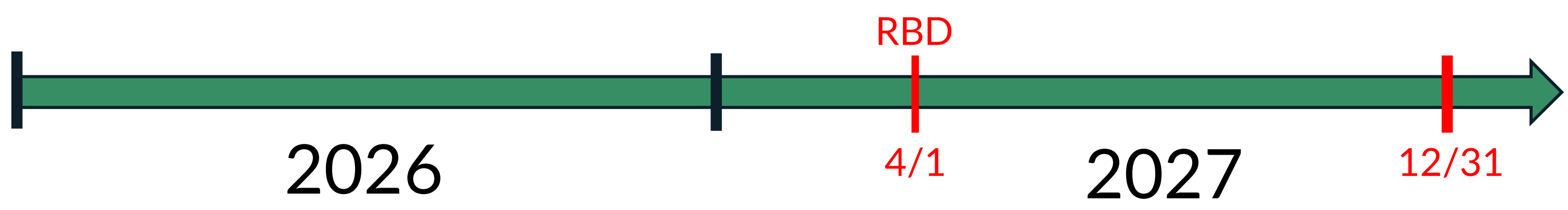
First Distribution Year

IRA Owner Date of Birth	RMD Starting Age
June 30, 1949, or earlier	**70½**
July 1, 1949 – December 31, 1950	**72**
January 1, 1951 – December 31, 1959	**73**
January 1, 1960, and later	**75**

Required Beginning Date (RBD)

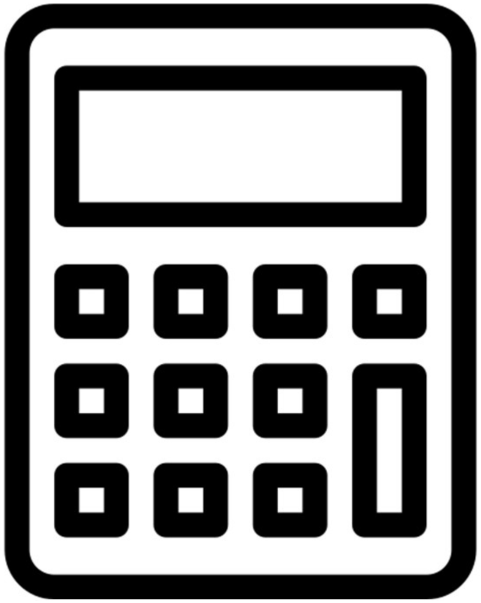
- **What:** Deadline for taking first RMD
- **When:** April 1 following the year IRA owner attains RMD starting age (12/31 all subsequent years)

Example: Mary was born on 3/17/1953. She will attain age 73 on her birthday in 2026. Mary's required beginning date is 4/1/2027.



If Mary waits to take her first RMD between January 1 and April 1, 2027, she must still take her full 2027 RMD by 12/31/2027.

Calculating RMDs



$$\frac{\text{IRA Balance}}{\text{Life Expectancy}}$$

What's the IRA Balance?

$$\frac{\text{IRA Balance}}{\text{Life Expectancy}}$$

Prior year's December 31 balance, plus any outstanding transfers and rollovers

What's the Life Expectancy?

$$\frac{\text{IRA Balance}}{\text{Life Expectancy}}$$

Uniform Lifetime Table is generally used to determine life expectancy

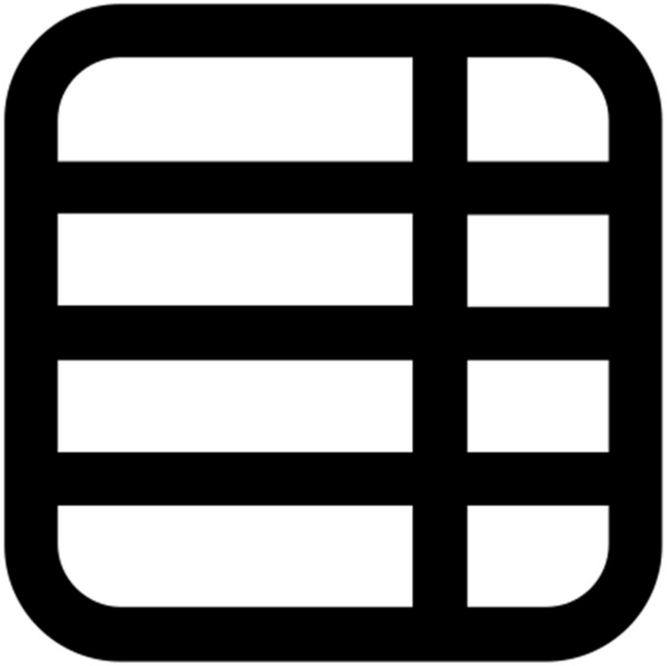
Uniform Lifetime Table

Age	Distribution Period
72	27.4
73	26.5
74	25.5
75	24.6
76	23.7
77	22.9
78	22
79	21.1
80	20.2
81	19.4
82	18.5
83	17.7
84	16.8
85	16

Exception to Uniform Lifetime Table

- Spouse is the sole primary beneficiary, AND
- Spouse is *more than* 10 years younger than the IRA owner

If both apply, IRA owner may use the Joint and Last Survivor Table



Joint & Last Survivor Table

Age	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65
69	46.2	45.2	44.3	43.4	42.5	41.6	40.7	39.8	38.9	38.1	37.2	36.4	35.5	34.7	33.9	33.1	32.3	31.6	30.9	30.1	29.4	28.8	28.1	27.5	26.9	26.3
70	46.1	45.2	44.3	43.3	42.4	41.5	40.6	39.7	38.8	38	37.1	36.2	35.4	34.6	33.8	33	32.2	31.4	30.7	29.9	29.2	28.5	27.9	27.2	26.6	26
71	46.1	45.1	44.2	43.3	42.4	41.5	40.6	39.7	38.8	37.9	37	36.1	35.3	34.5	33.6	32.8	32	31.2	30.5	29.7	29	28.3	27.6	26.9	26.3	25.7
72	46	45.1	44.2	43.2	42.3	41.4	40.5	39.6	38.7	37.8	36.9	36	35.2	34.3	33.5	32.7	31.9	31.1	30.3	29.5	28.8	28.1	27.4	26.7	26	25.4
73	46	45.1	44.1	43.2	42.3	41.4	40.4	39.5	38.6	37.7	36.8	36	35.1	34.2	33.4	32.6	31.7	30.9	30.1	29.4	28.6	27.9	27.2	26.5	25.8	25.1
74	46	45	44.1	43.2	42.2	41.3	40.4	39.5	38.6	37.7	36.8	35.9	35	34.1	33.3	32.4	31.6	30.8	30	29.2	28.4	27.7	27	26.2	25.5	24.9
75	45.9	45	44.1	43.1	42.2	41.3	40.3	39.4	38.5	37.6	36.7	35.8	34.9	34.1	33.2	32.4	31.5	30.7	29.9	29.1	28.3	27.5	26.8	26.1	25.3	24.6
76	45.9	45	44	43.1	42.2	41.2	40.3	39.4	38.5	37.5	36.6	35.7	34.9	34	33.1	32.3	31.4	30.6	29.8	29	28.2	27.4	26.6	25.9	25.2	24.4

Misc. RMD Rules

- RMDs can be aggregated and taken from one or more IRAs
  - Must determine RMD for each IRA separately
  - Cannot be aggregated with RMD from employer-sponsored retirement plans
  - Only amounts in IRAs that the individual holds as the owner may be aggregated
  - Distributions taken from a Roth IRA do not satisfy a Traditional IRA RMD
  - Cannot be aggregated with distributions required to be taken from an IRA which the individual holds as a beneficiary
- RMDs are not eligible for rollover or Roth IRA conversion
  - If an IRA owner takes a distribution from a Traditional, SEP, or SIMPLE IRA and has not yet satisfied RMDs for <u>all</u> their IRAs for the year, the first money distributed is deemed to satisfy the RMD and is not eligible to be rolled over or converted to a Roth IRA
- RMDs <u>may</u> be transferred
- Qualified Charitable Distributions (QCDs) may be used to satisfy an owner's RMD

Qualified Charitable Distribution (QCD)

- Tax-free transfer of IRA (Traditional, Roth, and certain SEP and SIMPLE IRAs) to a qualified charitable organization
- Owner (or beneficiary) must be age 70 ½
- Distribution must be paid directly to the qualified charitable organization
- $111,000 for 2026 (subject to COLAs)
- One-time election to treat distribution from an IRA to a split-interest entity as QCD ($55,000 for 2026—subject to COLAs)
- QCDs not subject to federal income tax requirements when distributed (special rules apply if owner has made deductible Traditional IRA contribution for the year the QCD is taken)

Excess Accumulation Penalty

- 25% penalty on any amount of the RMD that was not distributed
  - **Example:** If Sarah's RMD for 2026 is $10,000 and she only withdraws $6,000 by the applicable deadline (i.e., December 31, 2026), the standard amount of Sarah's excess penalty is $1,000 (25% of $4,000—the amount that was not properly withdrawn).
- Can be reduced to 10% if distribution taken within "correction window"
  - Owner must distribute the amount subject to the penalty and submit a return reflecting the reduced penalty tax
  - Correction window (generally 2 year from the missed RMD) ends the *earlier* of:
    - ✓ Mailing of a notice of deficiency
    - ✓ Date on which penalty tax assessed
    - ✓ Last day of the second taxable year following year in which penalty is imposed
- IRA owner may still apply for waiver to request penalty be waived (seek tax advice—Form 5329 & Instructions for Form 5329)

Reporting Excess Accumulation Penalty Form 5329

Form **5329**

Department of the Treasury
Internal Revenue Service

Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.

Go to *www.irs.gov/Form5329* for instructions and the latest information.

OMB No. 1545-0074

2025

Attachment Sequence No. **29**

Name of individual subject to additional tax. If married filing jointly, see instructions.			**Your social security number**
Fill in Your Address Only if You Are Filing This Form by Itself and Not With Your Tax Return	Home address (number and street), or P.O. box if mail is not delivered to your home	Apt. no.	If this is an amended return, check here ☐
	City, town or post office, state, and ZIP code. If you have a foreign address, also complete the spaces below. See instructions.		
	Foreign country name	Foreign province/state/county	Foreign postal code

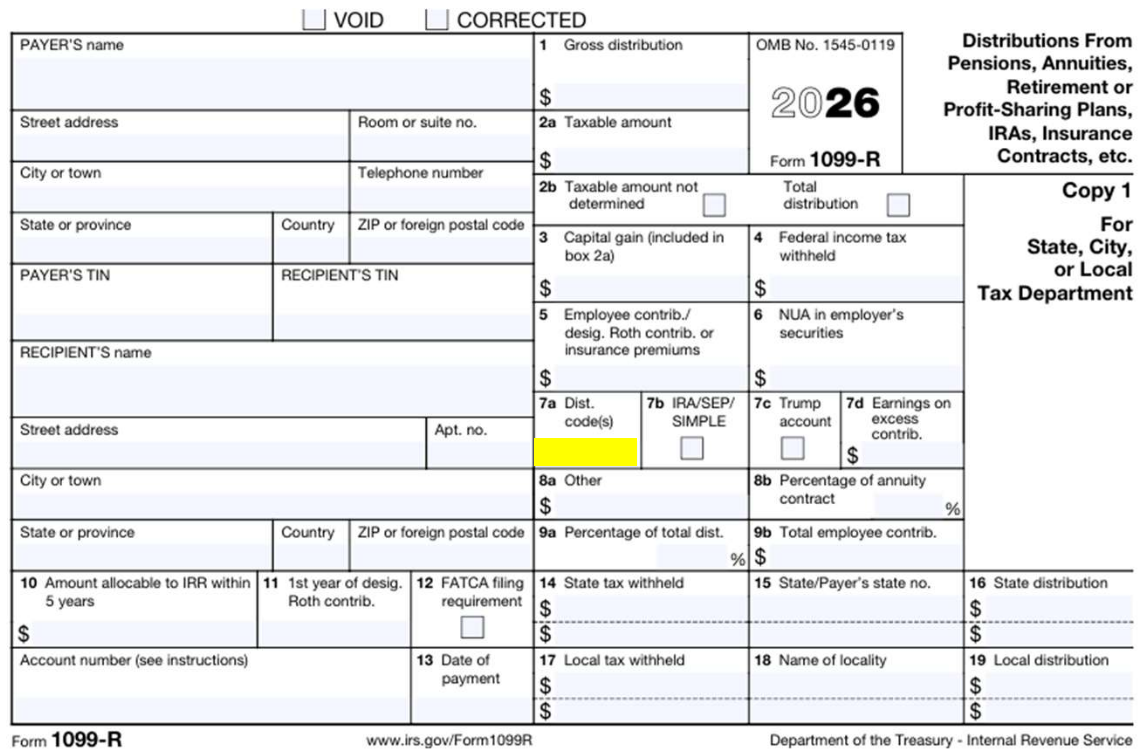
If you **only** owe the additional 10% tax on the full amount of the early distributions, you may be able to report this tax directly on Schedule 2 (Form 1040), line 8, without filing Form 5329. See instructions.

Part IX **Additional Tax on Excess Accumulation in Qualified Retirement Plans (Including IRAs).** Complete this part if you did not receive the minimum required distribution from your qualified retirement plan.

52a	Minimum required distribution for 2025 from all qualified plans for which you received a distribution of the full amount of the excess accumulation during the correction window	**52a**	
b	Minimum required distribution for 2025 from all other plans	**52b**	
53a	Amount distributed to you during 2025 from all qualified plans for which you received a distribution of the full amount of the excess accumulation during the correction window	**53a**	
b	Amount distributed to you during 2025 from all other plans	**53b**	
54a	Subtract line 53a from line 52a and multiply the result by 10% (0.10). If zero or less, enter -0-	**54a**	
b	Subtract line 53b from line 52b and multiply the result by 25% (0.25). If zero or less, enter -0-	**54b**	
55	Add lines 54a and 54b. Include the total on Schedule 2 (Form 1040), line 8, or Form 1041, Schedule G, line 8	**55**	

Reporting RMDs Form 1099-R

- **Code 7** – To report distributions paid to an owner on or after they attain age 59 ½, unless it's a Qualified Charitable Distribution
- **Code Y7 –** To report a Qualified Charitable Distribution from an IRA that is not an Inherited IRA (optional for tax year 2026)



VOID CORRECTED

PAYER'S name | Street address | Room or suite no. | City or town | Telephone number | State or province | Country | ZIP or foreign postal code | PAYER'S TIN | RECIPIENT'S TIN | RECIPIENT'S name | Street address | Apt. no. | City or town | State or province | Country | ZIP or foreign postal code

1 Gross distribution $ | OMB No. 1545-0119 | 2026 | Form 1099-R | Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

2a Taxable amount $

2b Taxable amount not determined | Total distribution

Copy 1 For State, City, or Local Tax Department

3 Capital gain (included in box 2a) $ | 4 Federal income tax withheld $

5 Employee contrib./ desig. Roth contrib. or insurance premiums $ | 6 NUA in employer's securities $

7a Dist. code(s) | 7b IRA/SEP/ SIMPLE | 7c Trump account | 7d Earnings on excess contrib. $

8a Other $ | 8b Percentage of annuity contract %

9a Percentage of total dist. % | 9b Total employee contrib. $

10 Amount allocable to IRR within 5 years $ | 11 1st year of desig. Roth contrib. | 12 FATCA filing requirement | 14 State tax withheld $ $ | 15 State/Payer's state no. | 16 State distribution $ $

Account number (see instructions) | 13 Date of payment | 17 Local tax withheld $ $ | 18 Name of locality | 19 Local distribution $ $

Form 1099-R www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

Questions?

CHAT WITH US OR CALL US AT 888.470.4542

MONDAY–FRIDAY, 8:00 A.M.–5:00 P.M., CT