

*Dear Valued Client:*

Late last year, Congress passed a law that helps individuals who are taking or about to take required payouts from employer-sponsored tax-qualified retirement plans or IRAs. In essence, the law waives these required payouts (called “required minimum distributions” or RMDs) for calendar year 2009. Had the waiver not been granted, many individuals with retirement accounts invested in beaten-down assets such as stocks or mutual funds would have had to sell assets at a loss this year to generate RMDs for 2009. But the new law change helps even those people who would otherwise have to make RMDs from retirement plan accounts and traditional IRAs invested in “bulletproof” assets such as government-insured CDs. If they can afford to skip this year’s RMD, they can lower their tax bill for 2009.

The new law change has an impact on three distinct groups of people—here’s how you or a family member may be affected.

***(1) Older individuals who are retirement plan account and traditional IRA owners.*** Required payouts from IRAs must begin when you attain age 70 1/2 (but the first year’s payout may be deferred until the following April). The overall purpose of the RMD rules is to make sure retirement accounts and IRAs are used primarily for the owner’s retirement, rather than as a tax-sheltered nest egg for the family; a prohibitively expensive IRS penalty rule applies if an RMD isn’t made.

**The new law allows older individuals to skip the RMD that would otherwise be required for calendar year 2009.**

However, the new law doesn’t waive a 2008 RMD that was deferred to April 1 of 2009. For example, suppose IRA owner Jeff turned 70 1/2 last year but decided not to take his first year’s RMD (the one for calendar year 2008) last year because his IRA’s stock market holdings were depressed in value and he was hoping for a recovery. Jeff must take his first year’s RMD (for 2008) by April 1 of this year. But thanks to the new law, he does not have to take the second year’s RMD (for 2009).

***(2) Beneficiaries of retirement plan accounts or traditional IRAs.***

**The new law allows designated beneficiaries of retirement plans or IRAs to skip the annual payout that would otherwise be required for calendar year 2009.**

***(3) Beneficiaries of Roth IRAs.*** The new law doesn’t affect owners of Roth IRA accounts for the simple reason that they do not have to make lifetime RMDs from these accounts. However, it does affect beneficiaries of Roth IRAs, who must make minimum annual withdrawals after the account owner dies. Thanks to the new law change, designated beneficiaries of Roth IRAs don’t have to make a minimum withdrawal for 2009 from their inherited Roth IRAs. This won’t affect their income tax, since distributions to designated beneficiaries of Roth IRAs are tax-free, but it will avoid having to sell reduced-in-value assets to make the otherwise-required distributions.

Please call my office if you have questions or concerns on how the new law change waiving RMDs for 2009 may affect you or a family member.

Sincerely,

Kelley Hardesty Smith and Co.

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