

In-Kind IRA's

Are you 72 or older? If so, you must take a required minimum distribution (RMD) from your traditional IRA, SEP-IRA, or SIMPLE IRA by the end of the year.

If you turn 72 this year, you can wait until April 1 of next year to take your first RMD—but you'll also have to take your second RMD by the end of that year.

Your RMD is a percentage of the total value of your retirement accounts based on your age and life expectancy. The older you are, the more you must distribute. But here's the kicker: your RMD must be based on the value of your retirement accounts as of the end of the prior year—December 31, 2021, in the case of 2022 RMDs. So you may have a high RMD due this year even though the value of your retirement portfolio has declined, perhaps substantially.

If your retirement accounts consist primarily of stocks, bonds, or other securities, you don't have to sell them at their current depressed levels and distribute the cash to yourself to fulfill your RMD. There's another option: do an in-kind distribution.

With an in-kind RMD, you transfer stock, bonds, mutual funds, or other securities directly from your IRA to a taxable account, such as a brokerage account. No selling is involved. The amount of your RMD is the fair market value of the stock or other securities at the time of the transfer.

Furthermore, you still have to pay income tax on the distribution at ordinary income rates. To avoid selling any part of the stock or other securities you've transferred, you'll have to come up with the cash to pay the tax from another source, such as a regular bank account.

With an in-kind distribution, not only do you avoid selling stocks in a down market, but the transfer may also reduce the taxes due on any future appreciation when you eventually do sell. This is because when you do an in-kind RMD, it resets the basis of the assets involved to their fair market value at the time of the transfer.

If you later sell, you pay tax only on the amount gained over your new basis. And such sales out of a taxable account generally are taxed at capital gains rates, not ordinary income rates.