

January 1997*

IRS Clarifies When Minimum Required Distributions Must Be Paid To Participants Who Reached Age 70½ in 1996

The Small Business Job Protection Act of 1996 (SBJPA '96) amended the date by which an employee (other than a 5% Owner) must begin to receive a Minimum Required Distribution (MRD). Beginning January 1, 1997, the Required Beginning Date (RBD) for an MRD is April 1 following the later of the calendar year the employee reaches age 70½ or the calendar year the employee retires from employment with the employer maintaining the plan. For a 5% Owner, the RBD remains the April 1 following the calendar year the 5% Owner reaches age 70½.

After passage of the SBJPA '96, questions arose as to how these rules would apply to an individual who reached age 70½ in 1996. Under prior rules, such an individual's RBD would have been April 1, 1997.

The IRS has issued Notice 96-67 to address this issue. An individual, as described above, who is still employed and is not a 5% owner, is not required to begin taking distributions by April 1, 1997. The individual's RBD would be the April 1 of the calendar year following the date the individual retires.

However, there are special rules for an individual who reached age 70½ in 1996, is not a 5% owner, and did not retire in 1996, but who did take a distribution in 1996.

The distributions in 1996:

1. Are treated as required distributions to the extent that the total MRD that would have been paid under pre-SBJPA '96 rules has not been reached.
2. Cannot be rolled over.

These same rules apply to a 403(b) Tax-Sheltered Annuity plan.

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