



CAPITAL ADVISORS

Substantially Equal Periodic Payments – 72(t)

Distributions from retirement accounts before the age of 59½ can be challenging. These distributions are generally subject to a 10% tax penalty from the IRS. In some cases, individuals may need access to a portion of their retirement accounts due to a financial need. For others, choosing to withdraw from an IRA is a distribution strategy used to reduce Required Minimum Distributions (RMDs). Substantially equal periodic payments, commonly referred to as 72(t), may be exempt from the 10% penalty if the distributions fall under Code 72(t)(2)¹. Strict rules and guidelines apply to this distribution strategy, and the financial impact of deviating from those rules can be significant.

How 72(t) works

72(t) can be used at **any** age. The substantially equal periodic payments from an IRA must remain in effect for **the longer of 5 years or until age 59½**. The eligible annual distribution amount is based on the balance of your IRA. The IRS has approved 3 specific methods to calculate distributions¹:

1. Required Minimum Distribution Method
2. Fixed Amortization Method
3. Fixed Annuitization Method

Rules and restrictions

- If you deviate from the payment plan, the 10% penalty exemption would be lost and applied **retroactively** to previous distributions.
- You may not rollover or convert your 72(t) payments.
- No funds may be added to the applicable IRA once the payment plan is in effect. Thus, rollovers from other retirement accounts or other contributions are not allowed.

Additional Information

- An individual can still have multiple IRA accounts. The 72(t) method does not have to apply to all IRA monies.
- Creating or splitting of an IRA needs to be done before the payment plan is in effect.
- A one-time switch to RMD method is allowed if using either the Fixed Amortization or Annuitization methods. If this distribution strategy is not executed correctly, it has the potential to have significant tax penalties and ramifications.
- Please seek advice from your CPA or tax specialist before implementing this strategy.

¹U.S. Department of the Treasury. Internal Revenue Service. *Retirement Plans FAQs Regarding Substantially Equal Periodic Payments*. Retrieved from <https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-substantially-equal-periodic-payments>.

DISCLOSURES:

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