

How to Gross Up an IRA/Retirement Plan Distribution to Cover Taxes Due

Here's how to gross-up a taxable distribution, such as an IRA Required Minimum Distribution (RMD), retirement plan distribution or any other taxable payment type so that you net a desired amount after tax(es) are withheld.

You can ask your financial advisor or brokerage company to "gross-up" your payment to cover the tax burden so that you receive your desired "net" amount.

For example, if you would like to end up with a \$10,000 net payment, here's how to gross up the payment:

1. Start by determining your **total tax rate** percentage (%) by adding your Federal and State tax withholding rates (percentages) for your tax bracket. For example, if your federal tax bracket is 22% and you live in MA the MA State withholding tax rate (bracket) is 5%, your **total tax rate** percentage is 27% ($22\% + 5\% = 27\%$).

NOTE: If you are confused at this point, consult a tax professional.

2. Now, subtract the **total tax rate** (27%) that you calculated in Step 1 from 100 percent (%) to get your **net tax rate** percentage. In the example above, the net tax rate (percentage) is 73% ($100\% - 27\% = 73\%$).

3. Now it comes time for a quick math lesson. How to convert a percentage to a decimal without causing brain damage! SOoooo....

- 100% percent = 1.00 decimal
- 50% percent = .50 decimal
- 73% percent = .73 decimal
- 22% percent = .22 decimal
- 5% percent = .05 decimal

4. So, you can convert a percentage to a decimal either by:

- Dividing the percentage by 100 **or**
- Simply moving the decimal point 2 positions to the left and filling with zeros where necessary

5. For example:

- $100\% / 100 = 1.00$
- $5\% / 100 = .05$
- $73\% / 100 = .73$

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6. Now, divide the desired **net payment amount** of \$10,000 by the **net tax rate** percentage of 73% (.73) to arrive at the **grossed-up amount**.
 - Example: $\$10,000 / (.73) = \$13,698.63$ (rounded).
7. **Final result:** You should withdraw a "**grossed-up amount**" amount of \$13,698.63 in order to receive your desired net payment amount of \$10,000.
8. **Caution:** The **grossed-up payment amount** creates a tax obligation of \$3,698.63 ($\$13,698.63 - \$10,000 = \$3,698.63$). Of this amount your tax obligation is:
 - **Federal tax obligation** = $\$13,698.63 \times (.22) = \$3,013.70$ rounded.
 - **MA (state) tax obligation** = $\$13,698.63 \times (.05) = \684.93 rounded
9. Pinehills Tax Services recommends that you place your tax obligations (Federal and State) in a separate account so that the obligations can be remitted timely when it comes time to pay the **TaxMan!** **AND that time always comes!**