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CARES Act Eliminates RMDs For 2020



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Retirement

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The Coronavirus Aid, Relief, and Economic Security (CARES) Act, recently passed into law, includes a number of measures designed to stimulate the economy. One provision allows retirees to forgo taking Required Minimum Distributions (RMDs) from IRAs or 401(k)'s (or other qualified accounts) this year (2020). Furthermore, the relief applies to both retirement account owners, as well as to beneficiaries taking distributions.

The following provides more details regarding this important provision as it applies to RMDs and actions you may need to take. For example, if you have automatic periodic distributions, i.e. monthly, quarterly, or annually, you may want to cancel these if you do not need this income.

What if you already took RMDs this year and do not need them?

For IRA, 401(k), and other retirement account owners who have already taken 2020 RMDs and do not need them, there are two ways to "return" them. If you have taken the RMD within 60 days, you can write a check (made payable to the Custodian; in memo section, add "60-day Rollover", then your account number), or otherwise transfer an amount equal to the RMD (up to the gross amount) back into your retirement account before the end of the 60-day rollover window. Keep in mind, employing the 60-day rollover, by returning a portion or all of your RMD, will preclude you from performing this action again within a one-year time period.

Unfortunately, you can't reverse the tax withholding, but depending on other factors in your tax situation, the IRS could refund the withdrawal when your 2020 return is filed. If you have the cash available, you could return the entire gross amount including the Federal and state tax withholding and you will get your tax withholding back when you file your taxes next year. Any amount you return to your IRA that is less than your gross RMD amount will be considered a distribution and taxed as such, again when you file your 2020 taxes.

If you took your RMD outside of the 60-day rollover window, you will need to demonstrate that you have been impacted by the COVID-19 crisis enough to qualify under the guidelines outlined for a Coronavirus-Related Distribution. The rollover "return" can still be completed anytime for the next three years beginning from the date the distribution was received.

Not all relief is provided to beneficiaries of inherited IRAs

Unfortunately, beneficiaries of inherited IRAs who took RMDs already this year are not provided a waiver. Beneficiaries are not eligible to make rollovers and therefore even if the distributed RMD was made within the last 60 days, there is no means to return it back into the inherited retirement account. The only exception for beneficiaries would be for a spouse who chose to remain a beneficiary of the deceased spouse's retirement account. In such an instance, they may be eligible to put the RMD back into their own retirement account, as a spousal rollover.

May 8, 2020

Also, non-spouse beneficiaries subject to the new 10-Year Rule imposed by the SECURE Act on Non-Eligible Designated Beneficiaries are not provided a year extension. Recall that 2020 is the first year that an individual could have passed away and had a beneficiary subject to the 10-Year Rule. The 10-Year Rule does not actually begin until the year after the year of death. Therefore, 2020 doesn't count as one of the ten years for purposes of the 10-Year Rule.

Possible IRA Conversion Tax Strategy

One possible tax strategy is to convert the now waived 2020 RMDs in the same amount from your traditional or Rollover IRA to a Roth IRA. This allows you to move some funds to a tax-exempt environment while maintaining your anticipated level of taxable income.

Did you turn 70½ in 2019?

There is another caveat with the CARES Act if you turned age 70½ in 2019. Recall you were allowed to wait to take your first RMD into the following year by April 15th, 2020. If this was the case and you did wait, the CARES Act has eliminated any RMD. You are therefore no longer required to take either your 2019 nor your 2020 RMD.

Qualified Charitable Distributions are still allowed

Voluntary distributions, including Qualified Charitable Distributions, are still allowed even though RMDs are eliminated. Continuing this type of distribution will benefit you by using pre-tax assets to fulfil your charitable intent.

5-Year Rule to Non-Designated Beneficiaries is extended one year

The CARES Act also impacts the 5-Year Rule that applies to Non-Designated Beneficiaries (e.g., charities, estates, non-See-Through Trusts) who inherit a retirement account from decedents who die prior to reaching their required beginning date. Recall that beneficiaries must distribute all inherited assets by the end of the fifth year after the retirement account owner's death. The CARES Act, however, allows 2020 to be ignored, or simply not counted as one of those five years, in essence extending the Rule an additional year.

The CARES Act is a historic emergency relief program for Americans and provides much-needed assistance for those affected by the pandemic and the resulting economic damage. We have focused here on the CARE Act RMD provisions. Please keep yourself and your loved ones safe over the next several weeks. And, as always, consult with a financial professional should you have any questions regarding your retirement plan.