

Re: CARES Act: Waiver of Required Minimum Distribution Rules

Dear Client:

The Coronavirus Aid, Relief, and Economic Security (CARES) Act waives all required minimum distributions for 2020, regardless of whether the taxpayer has been impacted by the pandemic.

The required minimum distribution (RMD) rules prevent taxpayers from extending the tax benefit for retirement savings indefinitely. In general, a minimum required distribution must be made for the later of the year in which the participant turns 70 1/2 (or 72, if they have not reached 70 1/2 before 2020) or retires, and for every year thereafter. The required beginning date cannot be delayed until retirement if the participant is a five-percent owner of the employer, or if the account is an IRA. The distribution for the first year can be made as late as April 1 of the following year. For other years, the required distribution must be made during the calendar year.

The waiver under the CARES ACT applies for calendar year 2020 to defined contribution plans, certain annuity plans, and traditional or Roth IRAs. The waiver allows seniors to hold on to their plan assets when they might otherwise have to sell at market lows.

Comment

There may be an additional benefit of the waiver for taxpayers who turned 70 1/2 in 2019 and did not take their first required distribution in 2019. For those individuals who chose to wait until April 1, 2020 and had not yet taken the distribution at the time legislation was passed, they can waive both the 2019 and 2020 RMDs.

Conversely, for all taxpayers who have already taken their distribution, it is uncertain if they can still benefit from the waiver. In general, distributions received each year, up to the amount of the individual's RMD, are not eligible rollover distributions. We must wait for guidance from the IRS to see if the generally applicable rule continues to apply for 2019 and 2020 RMDs that were taken prior to the CARES Act. For now, the distribution is included in income. However, if redepositing the RMD into another tax qualified account would otherwise qualify as a rollover, then taxpayers may be able to treat it as they would any other rollover (i.e. redeposit it somewhere within 60 days, convert to a Roth, etc.).

If you would like more information on the waiver of RMDs for 2020, please call our office. We are here to help you.

Sincerely,

The Huggins and Company Team