

IRAs Affected by the CARES Act - Updated May 5, 2020

» THE IMPACT

As you know, the worldwide outbreak of the coronavirus has resulted in a healthcare crisis and significant downturn in the market and economy. Major industries, small businesses, individuals, and families have all been negatively affected.

To bring some relief to those in the U.S., Congress passed the Coronavirus Aid, Relief and Economic Security Act (the CARES Act) on March 27, 2020. This \$2.2 trillion relief package provides funding and other relief to hospitals, airlines, businesses, workers, and students.

The CARES Act also provides relief to IRA accountholders. Here's what to expect.

» THE OVERVIEW

- 1) Required Minimum Distributions (RMDs) are waived for 2020
- 2) Tax relief applies to coronavirus-related distributions, for those that qualify

FAQs

Required Minimum Distributions (RMDs) will be waived for 2020

Are Required Minimum Distributions (RMDs) waived for calendar year 2020?

Yes. IRA accountholders do not need to take an RMD in 2020. If an accountholder was due to take a first-time RMD for 2019 by April 1, 2020, and had not yet taken the distribution in 2020, that distribution need not be taken. The first distribution will be due by December 31, 2021, based on the EOY December 31, 2020 balance.

Who is required to take an RMD in 2020?

Without the waiver from the CARES Act, an accountholder would have to take an RMD in 2020 if the accountholder turned age 70½ or older by December 31, 2019, or if the accountholder turned age 72 in 2020. The Setting Every Community Up for Retirement Enhancement Act of 2019 (the SECURE Act) was passed in December 2019 to enhance retirement savings opportunities. This act increased the age that RMDs begin from age 70½ to age 72. The change applies to anyone who had not yet reached age 70½ by December 31, 2019.

If an accountholder already took an RMD in 2020, can the accountholder return those funds to the IRA account?

Yes. If an accountholder took an RMD in 2020, the accountholder can roll over that amount back into their IRA within 60 days of withdrawal. The IRS has provided an extension to complete certain tax acts due between April 1 and July 15, until July 15, 2020. This includes the deadline to complete a 60-day rollover of an RMD back into the account, which provides some relief for RMDs taken after February 1, 2020. Note that IRA accountholders can only make one rollover across all IRAs in a 12-month period.

If an accountholder cannot, or chooses not, to rollover the RMD already distributed, another option is to offset the tax liability for that distribution by making a deductible IRA contribution for this year if the accountholder has earned income. A non-deductible contribution may also be made but does not reduce the tax burden.

If the accountholder qualifies for a coronavirus-related distribution waiver (discussed on Page 3), the accountholder may choose to include the distribution amount in taxable income over three years to spread out the tax liability. The accountholder may also repay the distribution amount to the IRA and avoid taxation on that amount. The accountholder has up to three years to make the repayment.

Does this waiver also apply to beneficiary accounts?

Yes. A beneficiary accountholder is not required to take a distribution from an inherited IRA in 2020. The CARES Act also adds a year to the five-year rule for taking funds out of an inherited IRA.

FAQs

Tax relief for coronavirus-related distributions, for those that qualify

Does the CARES Act provide any tax relief if an accountholder needs to take money out of an IRA in 2020?

Yes. If the accountholder is qualified to take a coronavirus-related distribution, the accountholder may take up to \$100,000 out of retirement savings in 2020 without having to pay the 10% early distribution penalty tax that applies to taxable distributions to those under age 59 ½.

Although the early distribution penalty does not apply to these distributions, they are still taxable. To help ease the tax burden, an accountholder may claim a portion of the coronavirus-related withdrawal each year on their federal tax return – and pay the associated taxes – over three years.

Who qualifies for a coronavirus-related distribution?

An accountholder qualifies for this tax relief, and other relief associated with coronavirus-related distributions, if the accountholder meets one of these conditions:

- The accountholder, a spouse, or a dependent has been diagnosed with COVID-19 by a test approved by the Centers for Disease Control and Prevention
- The accountholder experienced adverse financial consequences as a result of being quarantined, furloughed, laid off, or had work hours reduced
- The accountholder is unable to work because of a lack of childcare
- The accountholder had to close or reduce the hours of a business due to the virus
- The accountholder has been financially impacted by other factors determined by the Treasury Secretary

Can an accountholder pay a coronavirus withdrawal back into an IRA, and if so, how long does the Accountholder have to make that repayment?

Yes. An accountholder can repay all or a portion of the coronavirus-related distribution to an IRA within three years. An accountholder will not be taxed on the amount repaid. The repayments will not be counted toward the annual contribution limits. This can apply to an RMD taken in 2020 if the accountholder qualifies for a coronavirus-related distribution.

Contact Your Local Expert

These are confusing times but our Local Experts are here to help. Call us at 330.674.9015 for any questions you may have or to make an appointment.



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