# The CARES Act:

## *RMD Waivers & Other Facts to Know*

When Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the $2.2 trillion stimulus package became one of the largest bills ever passed through the legislative branch. And in it, there are certain provisions that affect retirement and tax planning rules for 2020. Specifically, there's an increased focus on the waiver of retirement minimum distributions (RMDs). An RMD is the amount of money that's required for you to withdraw from a retirement savings account when you hit a certain age. And while the recently passed SECURE Act increased the age limit for taking RMDs from 70 1/2 to 72, it's important to note that this new waiver doesn't apply to everyone in every situation.

Here are some facts to know about the new RMD waiver, retirement planning, and other CARES Act provisions to better understand how they affect you.


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## WAIVER OF REQUIRED MINIMUM DISTRIBUTIONS

For the calendar year 2020, the CARES Act has temporarily waived any RMDs from qualified retirement plans and individual retirement accounts (IRAs). Because most retirement plans have decreased in value recently, taking a 2020 distribution would equate to taking a larger percentage of an account's value. Not to mention, you'll be paying more in income tax and selling assets at lower valuations.

This move gives account owners new flexibility to retain tax-deferred savings until 2021 at the earliest. The waiver applies to those under four separate circumstances:

1. Any account owner who turned 70 1/2 in the year 2019.
2. Any account owner who turned 70 1/2 in 2019 but didn't withdrawal their RMD in that year.
3. Anyone who planned to take a delayed RMD by April 1, 2020
4. All beneficiaries of inherited IRAs for decedents who died before 2020.[i]

BELOW ARE SOME FREQUENTLY ASKED QUESTIONS ABOUT THE NEW RMD WAIVER RULE UNDER THE CARES ACT.

### WHAT ARE THE BENEFITS?

With the current market volatility and financial loss from retirement accounts since December 2019, this RMD waiver is designed to help IRA accounts recover recent devaluations. Plus, you won't have to worry about withdrawing a higher percentage of your account's balance. This flexibility should help down the road without forcing you to sell assets today at lower valuations. However, there are instances where it may make sense to withdraw more or less of your regular RMD money to take advantage of today's low tax rates.

### ARE THERE DOWNSIDE RISKS?

There are not. The RMD suspension simply helps you have more control over your retirement assets.

### IT'S A LITTLE UNCLEAR. WHAT'S THE RULING ON 2019 RMDS?

Because individuals have the option of taking their 2019 RMD either in 2019 or by April 1, 2020, there's a couple of distinctions to make: If you took your RMD in 2019, the new 2020 waiver doesn't apply. However, if you took your RMD after December 31, 2019, then the 2020 RMD waiver rule does apply.

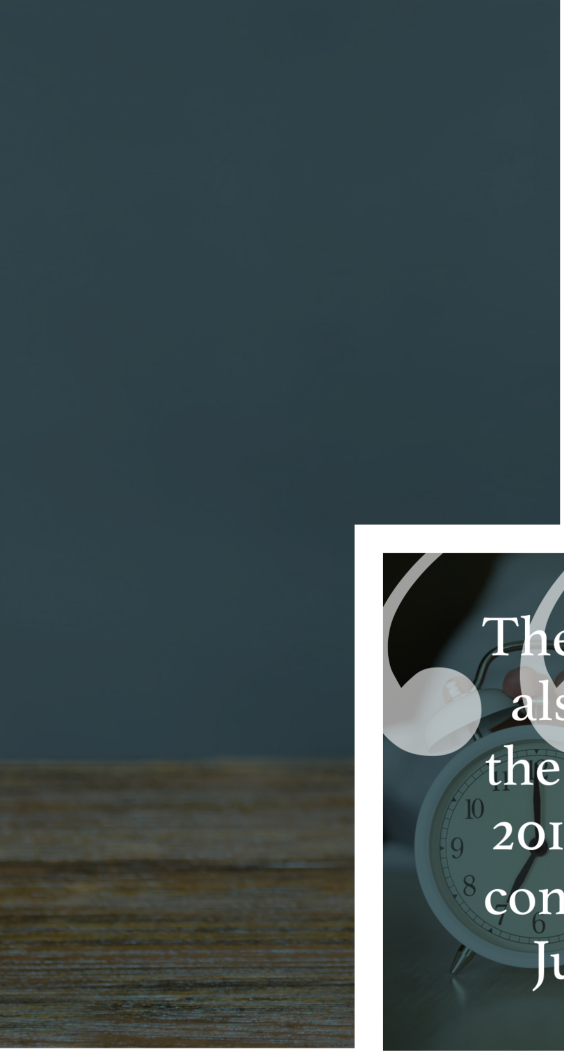
### I ALREADY CLAIMED MY DISTRIBUTION. CAN I GET MY MONEY BACK?

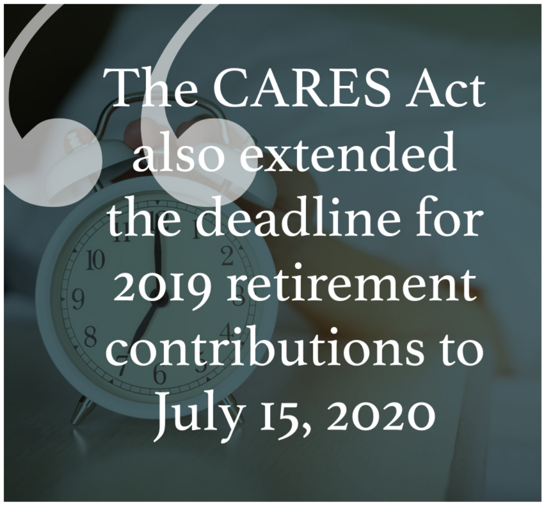
Yes and no. Strictly speaking, you can't reverse your distribution. But, the CARES Act does allow 60 days for re-contribution back into your retirement account, assuming the RMD qualifies for a rollover into a new IRA. This provision allows you, the retirement account owner, to take advantage of the CARES Act relief while avoiding income tax on the RMD itself.[ii]

### WHAT IF I TOOK MY RMD FOR 2020 MORE THAN 60 DAYS AGO?

While it's no guarantee, you still may be able to re-contribute your distribution. Section 2202 of the CARES Act explains that if you can "demonstrate a coronavirus impact", you may be eligible to re-contribute that RMD over the following three years. A "coronavirus impact" can count if you, your spouse, or someone in your household contracted the virus, or if you were negatively affected by the virus financially.

### CAN I RE-CONTRIBUTE A 2020 RMD TO AN INHERITED IRA?





> The CARES Act also extended the deadline for 2019 retirement contributions to July 15, 2020

Probably not. This is because inherited IRAs aren't usually eligible for rollovers, so without any more guidance from the IRS, you probably can't re-contribute an inherited IRA's RMD. However, it may be possible for beneficiaries affected by the virus to count the original RMD as coronavirus-related and then re-contribute that amount.[iii]

### DOES THIS RULE APPLY TO BENEFIT PLANS LIKE PENSIONS?

No. If you have a defined benefit plan, you must continue taking distributions if you're supposed to.

### WHAT IF I WANT MY DISTRIBUTION?

Even with the RMD waiver, you can still take your 2020 distribution to cover expenses. Please note that this distribution will be just that—a distribution. It would not count as an RMD.[iv]

## OTHER CARES ACT PROVISIONS TO KNOW

Although the RMD waiver portion of the CARES Act will affect the most Americans, other provisions in the legislation are important to note regarding other retirement plans, charity contributions, and deadline extensions. Here are four more provisions you should be aware of.

### NO EARLY WITHDRAWAL PENALTY FOR IRAS, 403(B)S, AND QUALIFIED PLANS

Even though all qualifying "coronavirus-related distributions" are still taxed as income, there's a provision in the CARES Act that waives the standard 10% add-on tax for premature distributions. That means for plan participants under age 59 1/2, you can withdraw up to $100,000 in 2020 from a retirement plan without incurring additional penalties. [ii]

What's more, if your economic situation is better than expected, you can repay any portion of the distribution into your plan within three years.

### RETIREMENT PLAN CONTRIBUTIONS DEADLINE EXTENDED

Just as the IRS extended the 2019 tax deadline to July 15, 2020, the CARES Act also extended the deadline for 2019 retirement contributions to July 15, 2020. This should help you explore the effects the virus has on the economy for a few more months before making an educated decision on your yearly contributions.

## TWO CHARITY BENEFITS

As our whole economy hurts, there's no doubt charitable organizations are also hurting. However, the CARES Act offers two tax-friendly ways to give:

1. **Suspended Gross Income Limitation**
   If you itemize deductions, the CARES Act gets rid of the 60% cash contribution limit of your adjusted gross income ato claim up to 100% of your AGI. [ii]
2. **Qualified Charitable Distributions**
   For those who don't itemize their deductions, the only likely option you have is to utilize the new $300 contribution rule for above-the-line deductions to qualified charitable organizations.[v]

## MOVING FORWARD

We understand this is a difficult time and that complex tax and retirement scenarios can only add to the anxieties you may be facing. However, know that you're not in this alone. We're here to address concerns you may have, and we can help you navigate your current financial situation to achieve your retirement goals. If you'd like to further discuss how to increase the efficiency of your retirement accounts, please reach out to us and we can schedule a complimentary consultation.

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**Sources:**

[i] https://www.bclplaw.com/en-US/insights/us-cares-act-waiver-of-2020-required-minimum-distributions.html

[ii] https://www.pillsburylaw.com/en/news-and-insights/cares-act-opportunities-retirement-accounts-charitable-giving.html

[iii] https://www.schwab.com/resource-center/insights/content/can-you-forgo-taking-rmds-2020

[iv] https://www.forbes.com/sites/deniseappleby/2020/04/13/the-top-8-must-know-rules-for-covid-19-rmd-waivers-under-the-cares-act/#44460bf6d2c8

[v] https://www.aarp.org/money/investing/info-2020/cares-act-retiree-tax-benefit.html