

Insights

U.S. – CARES ACT WAIVER OF 2020 REQUIRED MINIMUM DISTRIBUTIONS

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SUMMARY

The Coronavirus Aid, Relief, and Economic Security, or “CARES Act”—the third emergency bill that Congress has passed in response to the novel coronavirus (COVID-19) pandemic—was signed into law on Friday, March 27, 2020. The CARES Act contains certain relief provisions for retirement accounts. BCLP lawyers have been analyzing the bill and stand ready to advise clients on what impact it may have on their retirement plans and tax planning.

One item within the bill that will affect many individuals is the waiver of required minimum distributions (“RMDs”) for 2020. A RMD is the amount of money that is required to be withdrawn by the account owner of a traditional IRA when such account owner reaches a certain age and by the beneficiary of an inherited IRA. The CARES Act waives RMDs for 2020. Note that this waiver of RMDs for 2020 is not limited to those who are affected by COVID-19. This waiver of RMDs applies to (i) any account owner who is 72 or older in 2020, (ii) any account owner who turned 70 ½ in 2019, did not take his or her RMDs in 2019 and planned to take his or her delayed RMDs by April 1, 2020, and (iv) all beneficiaries of inherited IRAs for decedents who died prior to 2020.

Any withdrawal from an individual’s IRA in 2020 is no longer deemed to be a RMD because of the RMD waiver in the CARES Act. Any individual who has already taken a withdrawal in 2020 to satisfy what would have been the RMD may now transfer what was withdrawn back into the IRA within a 60 day rollover period of taking the withdrawal. If more than 60 days has elapsed since the withdrawal was taken, this rollover will not be able to be made without a waiver of the 60 day rollover period. In addition, a beneficiary may not return funds to an inherited IRA. Finally, any individual who is required to take RMDs in 2020 may choose not to take the 2020 distribution, but certainly can withdraw funds from the IRA in 2020 if funds are needed by the individual.

There are now additional opportunities for tax planning with the amounts that but for the 2020 waiver of RMDs would have had to be withdrawn as RMDs. One possible tax strategy is to convert the traditional IRA to a Roth IRA in the amount of the RMDs for 2020 that no longer need to be taken

in 2020 due to the 2020 RMD waiver. The individual will be able to move some funds to a tax-exempt environment while maintaining his or her anticipated level of taxable income.

RELATED CAPABILITIES

- Private Client
- Tax & Private Client

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