Updated: Relief for Retirement Account Owners

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On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law. Since then, the U.S. Treasury Department has issued guidance to clarify and, in some cases, expand the provisions of the CARES Act dealing with retirement accounts and the relief offered to retirement account owners and/or beneficiaries.

We'll answer some questions you may have about this new guidance and how it could impact you.

I understand that Required Minimum Distributions (RMDs) are not required this year. Has this changed?

No, RMDs from any IRA, 401(k), 403(b), governmental 457(b) or federal Thrift Savings Plan account are still suspended for 2020. RMDs for beneficiaries of these accounts are also suspended for 2020.

I already took some or all of what I thought was my 2020 RMD. Is there a way for me to get that back into my account?

Yes, in late June, the Treasury Department released IRS Notice 2020-51, which provides substantial relief to taxpayers who took distributions of what would have been RMDs but for the CARES Act. In short, any 2020 distributions that were already taken and would have been an RMD can now be rolled back into an IRA or qualified plan by Aug. 31, 2020.

What about the 60-day rollover rule?

For distributions taken earlier this year that would have been RMDs (if not for the CARES Act), Notice 2020-51 extends the 60-day rollover window to Aug. 31, 2020. As such, if you took such a distribution and would like to return it (to a retirement account), you have until then to take action.

I already completed a 60-day IRA rollover within the past year. Can I still "fix" my unwanted 2020 "RMD"?

Yes! Notice 2020-51 provides relief for IRA owners who would otherwise be impacted by the once-per-year rollover rule. More specifically, rollovers of distributions that have already been received, and that would have been 2020 RMDs but for the CARES Act, will be disregarded for purposes of the once-per-year rollover rule, provided the rollover is completed by Aug. 31, 2020.

Is the rollover relief available for beneficiaries as well?

Yes! In an unprecedented move that surprised many observers, the IRS is even allowing beneficiaries to return unwanted 2020 distributions (that would have been RMDs, if not for the CARES Act). The rollover must be deposited back into the inherited IRA that it was withdrawn from, and the deadline to complete the rollover is again Aug. 31, 2020.

I had federal and/or state income tax withheld from distributions I already received. Will that money be put back automatically and if not, what do I do?

If you had taxes withheld on your RMD, and you only roll the net amount (the amount you received after taxes were deducted) back into your IRA, then the amount of tax withheld will be taxable on your 2020 tax return. As an alternative, if you have the ability to "make up" the amount withheld with other funds, you can roll the full amount of your distribution (the amount you received, plus the taxes that were withheld) back into the IRA. That will eliminate any taxation of your RMD in 2020, because the entire amount will have been rolled back. You will still receive credit for the taxes withheld when you file your 2020 income tax return, though, so you may want to talk to your tax preparer and adjust your estimated taxes to take the withheld amounts into account.

Has the IRS expanded the availability of Coronavirus-Related Distributions?

Yes. In June, the IRS released Notice 2020-50, in which it significantly expanded the conditions for which an individual may qualify to take a Coronavirus-Related Distribution. More specifically, individuals who have had pay or self-employment income reduced due to COVID-19 and individuals who have had a job offer rescinded or the start date of a job delayed due to COVID-19 are now eligible to take such distributions.

In addition, Notice 2020-50 extends the ability to take a Coronavirus-Related Distribution to those who have had a spouse or household member financially impacted by the situations described in the CARES Act and as added to by Notice 2020-50.

For more information, please contact Craig Cirbus at ccirbus@dopkins.com.

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As a result, those eligible to take a Coronavirus-Related Distribution now include:

- Anyone, plus their spouse or dependent, who is diagnosed with COVID-19 by an approved test.
- Anyone who experiences adverse financial consequences resulting from the individual, spouse or household member who:
  - Is quarantined, furloughed, laid off or has work hours reduced due to COVID-19.
  - Is unable to work due to lack of childcare due to COVID-19.
  - Is closing or reducing hours of a business they own or operate due to COVID-19.
  - Has pay or self-employment income reduced due to COVID-19.
  - Has a job offer rescinded or start date of a job delayed due to COVID-19.

As a reminder, benefits of Coronavirus-Related Distributions, which are limited to a maximum combined amount of $100,000 from all retirement accounts and which must be taken in 2020, include the following:

- Exemption from the 10% early distribution penalty for those under age 59½.
- By default, the income from the distributions is split evenly on the 2020, 2021 and 2022 income tax returns. Alternatively, taxpayers may elect to include all the income in 2020.
- The distributions may be rolled over (repaid) for up to three years from the date the distribution is received, thus eliminating the income taxes that would otherwise be owed on the distribution.

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