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The CARES Act 2020 RMD Waiver: What You Need to Know

Presented by FourFront Advisors

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), signed into law on March 27, 2020, includes provisions that temporarily relax several key retirement account rules. One of these provisions is a waiver of required minimum distributions (RMDs) in 2020. Here's what you need to know.

RMD Rules

Generally, once you reach age 72 (or age 70½, if you reached that age prior to December 31, 2019), you are required to withdraw a certain amount of money from your IRA, 401(k), 403(b), or other qualified retirement plan account each year.

The CARES Act Waiver

The CARES Act has waived the mandate to take an RMD in 2020 from your IRA, workplace defined contribution plan (i.e., 401(k), 403(b)), or inherited IRA. In addition, individuals who reached age 70½ in 2019 and who had deferred their 2019 RMD until the required beginning date of April 1, 2020, may waive both that RMD *and* their 2020 RMD.

RMDs from defined benefit plans and cash balance plans are *not* eligible for the waiver, nor are RMDs taken before December 31, 2019.

Keep in mind that you don't have to leave the money in your account. You certainly may take your RMD as usual if you wish, but there are potential benefits to forgoing the distribution this year.

Benefits to Leaving the Money in Your Account

Because RMDs are calculated based on your account value at the end of the prior year (i.e., as of December 31, 2019), you may be withdrawing a much larger percentage of assets from your account than you otherwise would. This is because financial markets have fallen, in some cases, more than 30 percent from their recent highs, which likely has also depressed portfolio values.

Not taking an RMD in 2020 may help you avoid a bigger tax bill and potentially benefit more from a market recovery.

What If You Already Took Your RMD?

If you have already taken your 2020 RMD (or your 2019 RMD, for those who deferred their first distribution until 2020), you may roll the distributed assets back into your account within 60 days without taxes or penalties.

If it has been more than 60 days since you took your 2020 RMD, the IRS has issued Notice 2020-51. Under that guidance, the 60-day rollover window was extended to August 31, 2020. Therefore, distributions taken between January 1, 2020, and July 2, 2020, will be eligible for a 60-day rollover until August 31, 2020.

The repayment will be treated as a rollover, but not for purposes of the one rollover per 12-month period limitation, provided the repayment is made no later than August 31, 2020. As a result, multiple distributions may be rolled over, including monthly RMD payments, provided the repayment is made no later than August 31, 2020.

What If Taxes Were Withheld from a Previously Distributed 2020 RMD?

If the 60-day rollover applies to your distribution, the gross amount can be returned as a rollover contribution, including the amount you received and any taxes previously withheld.

Generally, firms cannot reverse tax withholdings after a distribution is executed. These taxes paid will be reported on your 2020 Form 1099-R and may be refundable when filing your 2020 tax return.

The Importance of Professional Guidance

As with any newly introduced legislation or change to financial transaction rules, the situation is fluid and additional clarification may be coming from regulatory agencies. As such, be sure to reach out to us or your financial institution if you have questions about waiving your RMD this year.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

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