CARES Act RMD Waiver for 2020

The Coronavirus Aid, Relief, and Economic Security Act ("CARES" or "The Act"), signed into law on Friday, March 27, 2020, aims to provide relief to taxpayers due to the economic and financial challenges brought about by COVID-19. The Act ushered in significant changes to the rules governing required minimum distributions from defined contribution retirement plans such as IRAs, 401(k)s and 403(b)s, for the year 2020. Below, we highlight key takeaways from this section of the CARES Act, as well as a few noteworthy strategies that you might consider.

Key Details of RMD Waiver for 2020

- Required minimum distributions (RMDs) for defined contribution plans such as IRAs, 401(k)s and 403(b)s have been suspended for the year 2020.
- The SECURE Act had postponed the age at which individuals have to start taking RMDs from 70½ to 72, however those who turned 70½ in 2019 remained subject to the old rules and were expected to take an RMD by April 1, 2020. Following the passage of the CARES Act, those who turned 70½ in 2019 and who have not yet taken their RMD can now wait a year to do so.
- If the RMD was already partially or fully distributed in 2020 and more than 60 days have passed, there is likely no way to reverse the distribution. However, if a distribution was made from your plan within the last 60 days, and you redeposit the amount distributed back into the plan within 60 days of the distribution, it should be considered a "rollover," and thus not treated as a taxable distribution. It is important to remember that the 60-day rollover is only permitted once every 12 months. So for example, if you took a distribution in both February and March 2020, only one of them would be eligible for the 60-day rollover, assuming you had not already implemented a rollover within the last 12 months.
- Beneficiary IRAs also have the RMD waived for 2020. If the decedent passed away in 2020, the 10-year rule established by the SECURE Act would begin in 2021. It is important to note, however, that non-spouse beneficiary IRAs are not eligible for 60-day rollovers.

Possible Advantages of the RMD Waiver

Those individuals who do not need the income can allow the funds to remain in the IRA for an additional year, benefitting from prolonged tax-deferred growth. In contrast, those who do rely on the full RMD amount for income will likely reap no benefit from the waiver. Additionally, the RMD waiver avoids a situation in which RMDs calculated at stock market highs are then payable when the value of the retirement account is substantially lower.

Noteworthy Strategies

Individuals who determine that they do not need the income from their IRA this year may still decide to make a distribution if they expect to be in a low tax bracket. Moreover, this may be an opportune time to perform a partial Roth IRA conversion, if the proceeds are not needed in the near term. An RMD is not eligible for conversion to a Roth IRA; however, given that there is no required minimum distribution in 2020, amounts distributed from an IRA in 2020 could potentially be converted to a Roth IRA. Additionally, implementing a Roth IRA conversion while market values are depressed can be beneficial as you pay a lower tax on the conversion than would have been payable had the IRA value been higher. Assuming that the market recovers some or all of its losses over time, the appreciation would then accrue tax-free within the Roth IRA.

Closing Thoughts

For individuals who rely on the required minimum distribution for their income, the best strategy may be not to make any changes and to move forward with the distribution as originally planned. Conversely, for those who do not need the income they can consider the strategies noted above or, if charitably inclined, can consider a QCD (qualified charitable distribution). It is important to note that one can still implement a QCD from an IRA in 2020 if over the age of 70½. While this will not offset the RMD (given that there is no RMD for the year), it will still reduce the overall balance of the IRA, thereby theoretically reducing future RMDs. Please speak with your individual tax advisor to discuss how this may affect your specific situation.

NEUBERGER | BERMAN

Neuberger Berman
1290 Avenue of the Americas
New York, NY 10104-0001

www.nb.com