

IRS Issues Additional Guidance for Retirement Account Withdrawals in 2020

Article
2020

The IRS recently released Notices **2020-50** and **2020-51**, on June 19 and June 26, respectively, which offer important but temporary relief to individuals who took their Required Minimum Distributions (RMDs) in 2020 prior to the enactment of the CARES Act. The Notices also expanded the number of people eligible to withdraw “coronavirus related distributions” from their retirement accounts.

Relief for Individuals Who Received an RMD

Upon reaching age 72, individuals must start withdrawing RMDs from their retirement accounts. The CARES Act, which was signed into law on March 27, 2020, waived RMDs for most retirement accounts for the year 2020, including 401(k) plans, IRAs, and 403(b) plans. The RMD waiver included the following types of RMDs:

- 2020 RMDs for the account holder
- 2020 RMDs for inherited IRAs
- 2019 RMDs required to be taken by April 1, 2020 (i.e. for individuals who reached age 70 1/2 in 2019 (meaning the first distribution must be taken by April 1, 2020), and the individual had not yet taken the first RMD).

As a result of the guidance provided in the IRS Notices, if you took an RMD from one of the three categories above, you discovered you were not required to take the RMD, and you would like to put it back into a retirement plan (meaning you will not have to pay tax on it), there are three paths to accomplishing that result:

- **Repayment:** If the distribution came from an IRA, you can return it to the same account, tax-free, by August 31, 2020. This is true even if you are the non-spouse beneficiary of an inherited IRA. Typically there is a limitation that you can only complete one IRA-to-IRA rollover every twelve months, but that rule does not apply to this repayment option. There is no option to return RMDs to other types of accounts, such as 401(k) accounts.
- **Rollover:** Typically an RMD cannot be rolled over into another IRA account. However, an RMD that was taken in 2020, but which turned out not to be required due to the CARES Act, can be rolled over into an IRA. For an inherited account, this option works only if the beneficiary of the inherited retirement

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account is the surviving spouse of the participant. If eligible, the RMD can be rolled over within 60 days or by August 31, 2020, whichever is later. This option is subject to the once-per-12-months limit on IRA-to-IRA rollovers.

- **Coronavirus-related distribution:** If the distribution qualifies as a coronavirus-related distribution (discussed below), you can roll it over any time within three years after you receive it. For an inherited account, this option works only if the beneficiary of the retirement account is the surviving spouse of the participant. This option is not subject to the once-per-12-months limit on IRA-to-IRA rollovers.

The above rules will not apply in the following circumstances:

- If you were born after June 30, 1949 and therefore did not attain age 70 1/2 prior to 2020, then 2021 will be the first year an RMD is required.
- If you did not take an RMD in 2020, these repayment options do not affect you. No RMD is required in 2020.
- If you took an RMD, but want to or need to keep the RMD.
- If you are not required to take a distribution (but did), or if you withdraw more than your RMD, those distributions are still subject to the 60-day rollover period, and the once-per-12-months limit on IRA-to-IRA rollovers.
- An RMD that you missed in a prior year. The CARES Act does not provide relief for this situation.

Expansion of Those Eligible for Coronavirus-Related Distribution

A coronavirus-related distribution is a withdrawal from certain retirement accounts (including IRAs, 401(k) plans, 403(a) and (b) plans, and 457 plans) taken in 2020, up to an amount of \$100,000, by a person who was impacted by the coronavirus. The impact could be direct, through a COVID-19 diagnosis of the individual or a spouse, or various circumstances resulting in a financial impact, which were expanded under the Treasury Notices, such as the individual or spouse being quarantined, furloughed, or being unable to work as a result of childcare needs. An eligible coronavirus-related distribution is not subject to the 10% withdrawal penalty, and will be included in the individual's income equally over 3 years, unless rolled over into a retirement account, as described above.

[1] The age of the "required beginning date" used to be April 1 of the year following the year a person reached age 70 1/2, but the provisions of the SECURE Act passed at the end of 2019 changed the RBD to April 1 of the year following the year a person reached age 72.

[2] RMDs are not waived for 457 accounts and defined benefit plans.