Required distributions for 2020 suspended for many plan participants and IRA owners

Michael G. Riley | Tuesday, July 21, 2020

UPDATED JULY 21, 2020

The CARES Act waives the 2020 minimum distribution requirement for many retirement plans and IRAs

If you are a participant in retirement plan or the owner of an IRA, you are required to take minimum distributions annually, starting for the year in which you attain age 72 (before 2020, this was age 70 1/2). If you fail to take the required minimum distribution, a steep penalty applies.

There are few exceptions. If you are not a 5% owner of your employer and you continue to work past age 72, the required minimum distributions do not start until you retire, provided the retirement plan permits you not to start RMDs until you terminate. Most plans permit you to delay.

The CARES Act creates a moratorium on required minimum distributions for 2020. You can take the distribution if you prefer, but you will not be penalized if you do not. This will be welcome relief for people who do not want to liquidate investments in a down market in order to satisfy the minimum distribution requirement.

The one-year required minimum distribution moratorium under the CARES Act applies to IRAs and defined contribution retirement plans, such as 401(k)s, money purchase pension plans, 403(b) plans and some government plans. Plans may need to be amended to accommodate the moratorium.

This exception only applies to distributions required in 2020. As the law stands, required minimum distributions will resume in 2021 and beyond.

If you attained age 70 ½ in 2019, then you had a required minimum distribution for 2019 (unless you continued to work and were not a 5% owner) and for every year thereafter. You were allowed to delay taking the 2019 distribution until April 1, 2020 under a rule that applies only to the first year in which you are required to take minimum distributions. If you delayed that first required distribution into 2020, the CARES Act suspended that distribution too, so there is no penalty.

This exemption from required minimum distributions also applies to beneficiaries of inherited IRAs who, although they might not be 72 or older, are otherwise required to take minimum distributions annually.

If you are a beneficiary of a retirement account or IRA of a decedent who died before 2020 and if the so-called the five-year rule applies, the year 2020 will not count against the five-year deferral. For participants and IRA owners who die in 2020 subject to the five-year rule, the five year period starts in 2021, so the 2020 suspension will not change the calculation of that period.

The five-year rule generally applies if a participant or account owner died before attaining his or her required beginning date for minimum required distributions without naming beneficiaries who are individuals.

Did You Take Your 2020 Required Distribution Before the Law Changed (or Before You Knew the Law Changed) to Suspend Required Distributions for 2020?

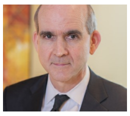
If you received one or more distributions that you or someone thought were required minimum distributions, but it turned out they were not required because of the 2020 suspension of required distributions, if you would rather not have taken the distribution and would prefer to defer the tax and keep the money in the plan or your IRA, there may be a fix, but you may need to act quickly.

If the distribution occurred in the last 60 days, you may be able to roll those dollars back into the plan or into an IRA tax-free. That means you will not need to pay the tax on the distribution in 2020. Keep in mind that the dollars are tax-deferred, meaning you will pay income tax on them when they are ultimately distributed.

This must be handled carefully, however, because there are a number of technical rules governing tax-free rollovers. For example, you must rollover the same money or property that was distributed. Also, you can only make one tax-free rollover from one IRA to another IRA in any twelve-month period. Distributions for inherited IRAs to non-spouses are not eligible for rollover. In light of these technical requirements, we suggest checking with your tax adviser before rolling the 2020 distribution back into the plan or IRA.

In June of 2020, the IRS and the Treasury Department issued guidance that offers relief to many plan participants and IRA owners and beneficiaries that will allow them to roll 2020 distributions back into plans and IRAs before August 31, 2020, even if the 60-day rollover period has expired or the distributions might not otherwise have been eligible rollover distributions. In some cases, the money needs to go back into the same IRA from which it came. Be sure to follow the guidance to qualify for relief. Follow this link for more discussion of this guidance .

Click here for more on the suspension of required minimum distributions in 2020.



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Team member bio