IRS Guidance Provides RMD Rollover Relief

JULY 7, 2020

The CARES Act was enacted in an attempt to mitigate the economic effects of the COVID-19 pandemic. Among other things, it extends favorable tax treatment to qualified individuals who take so-called "coronavirus-related distributions" (CRDs) from IRAs, 401(k) plans and certain other retirement plans.

Specifically, the CARES Act waives the 10% early distribution penalty for CRDs taken between January 1, 2020, and December 31, 2020. Under the law, the waiver applies to CRDs made to an individual:

- Who's diagnosed with COVID-19,
- Whose spouse or dependent is diagnosed with COVID-19, or
- Who experiences adverse financial consequences as a result of COVID-19. These include being quarantined, furloughed or laid off; having work hours reduced; being unable to work due to lack of child care; closing (or reducing the hours of) a business owned by the individual; or other factors determined by the Treasury Secretary.

IRS Notice 2020-50 expands the definition of qualified individuals for purposes of CRDs and plan loans to take into account additional factors, such as a reduction in pay or self-employment income, the rescission of a job offer and the delay of a start date for a job. In addition, the definition now also considers adverse financial consequences arising for the impact of COVID-19 suffered by an individual's spouse or household member.

Eligible individuals can withdraw up to $100,000. They can repay withdrawn funds within three years of the day after the CRD without regard to the applicable cap on annual contributions. To the extent such early distributions aren't repaid within three years or eligible for tax-free rollover treatment, the related income tax can be prorated over three years.

JULY 7, 2020

The CARES Act also allows plans to implement certain relaxed rules for qualified individuals on plan loan amounts and repayment terms. For example, plans can suspend loan repayments due from March 27, 2020, through December 31, 2020 (delaying each payment up to one year), and the limit on loans made on or after March 27, 2020, and before September 23, 2020, is increased from $50,000 to $100,000. The limit on the aggregate amount of loans in that period is increased from 50% of the employee's vested accrued benefit to 100%.

Notice 2020-50 makes clear, too, that the $100,000 limit on CRDs applies to a qualified individual's aggregate CRDs from all eligible retirement plans — the limit doesn't apply on a per-plan basis. It explains that CRDs can be used for purposes not related to COVID-19 and that repayments to an IRA don't count against the one-rollover-per-12 months limit on IRA rollovers. And it warns that qualified individuals who elect to include the entire amount of a CRD in their 2020 income, rather than prorating it over three years, will be held to that choice after they file their 2020 income tax returns; they can't subsequently revoke the election.

As for loans, the notice provides a safe harbor to help employers avoid complicated calculations related to the stacking of individually reamortized payments on top of regularly scheduled payments due after December 31, 2020. The safe harbor permits reamortized payments to begin after the period of payment suspension and continue for up to one year after the loan was originally scheduled to be repaid. The guidance notes, though, that other reasonable methods of administering the loan relief exist.

Notice 2020-50 further clarifies that it's up to employers to decide whether — and to what extent — their plans will provide the CRD and loan relief allowed by the CARES Act. (Qualified individuals can claim the tax benefits even if plan provisions aren't changed.) We can help you determine which aspects of the relief to offer and how best to implement them.

Rollover of RMDs

The CARES Act waives the RMD rules for certain defined contribution plans and IRAs for calendar year 2020. The waiver applies to both 2019 RMDs required to be taken by April 1, 2020, and RMDs required for 2020. It applies for calendar years beginning after December 31, 2019.

But, because the law wasn't enacted until late March 2020, some individuals had already taken RMDs for the year. If they wanted to roll over those now non-RMD distributions to an eligible retirement account, they needed to satisfy the rule that generally requires tax-free rollovers to be made within 60 days of distribution. Moreover, IRAs generally are subject to a "one-rollover-per-12 month" restriction.

JULY 7, 2020

The IRS previously extended the 60-day rollover period to the later of 60 days after receipt or July 15, 2020, for 2020 RMDs taken as early as February 1, 2020, but that left out individuals who took their 2020 RMDs in January. Notice 2020-51 extends that period to the later of 60 days after receipt or August 31, 2020, for all distributions that, but for the CARES Act, would have been RMDs (even if the distribution normally would be treated as part of a series of substantially equal periodic payments).

Notice 2020-51 also permits an IRA owner or beneficiary who has already received a distribution that would've been an RMD for 2020 to repay it to the IRA by the later of 60 days after receipt or August 31, 2020 (non-spouse beneficiaries generally are prohibited from doing rollovers of distributions). The repayment is exempt from the one-rollover-per-12 month limit on IRAs.

The notice includes a sample plan amendment employers can adopt to give plan participants and beneficiaries whose RMDs are waived the option to receive the waived RMD. The sample will have no effect on other distribution provisions.

Stay Tuned

As the number the COVID-19 cases continues to spike across the country, it's possible that Congress, the Department of Treasury and the IRS may provide additional tax and financial relief. We'll let you know about the latest developments that could affect your finances. Contact us if you have any questions.

999 Bishop Street, Suite 1900 | Honolulu, HI 96813
P 808.531.3400 | F 808.531.3433 | www.accuityllp.com