CARES Act and IRA Changes

This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any transaction.

New coronavirus-related distributions ("CRD").

Individuals may withdraw up to $100,000 in aggregate from eligible retirement plans without paying the 10 percent early distribution penalty tax.

- A CRD is defined as a distribution made on or after January 1, 2020, and before December 31, 2020, to a qualified individual, defined as:
    - an individual (or the spouse or dependent of the individual) who is diagnosed with the COVID-19 disease or the SARS-CoV-2 virus in an approved test; or
    - an individual who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of child care due to such virus or disease, closing or reduced hours of a business owned or operated by the individual due to such virus or disease, or other factors as determined by the Treasury Secretary.

The CARES Act clarifies that employers may rely on participants' certification that they meet the CRD requirements.

- An eligible retirement plan is defined as a qualified retirement plan (e.g., a 401(k) plan), 403(b) plan, governmental 457(b) plan, or an IRA.
- CRDs will meet the retirement plan distribution requirements, as long as all distributions from one employer do not exceed $100,000.
- Individuals may repay CRDs over three years beginning with the day following the day a CRD is made. Repayments may be made to an eligible retirement plan or IRA.
- CRD repayments made within the three-year period will be treated as having satisfied the general 60-day rollover requirement.
- CRDs will be taxed ratably over a three-year period, unless an individual elects otherwise.
- Although CRDs may be rolled over, they are not considered "eligible rollover distributions" for certain purposes. Employers are not required to offer a direct rollover option. Employers are also not required to withhold 20 percent on a CRD or provide a 402(f) notice, which explains the tax and rollover options required by IRC Sec. 402(f).

Waiver of RMDs in—or for—2020.

Financial markets have taken a hit in the wake of the coronavirus outbreak. To help savers retain more in their retirement accounts, the CARES Act waives the required minimum distribution ("**RMD**") in 2020 for plan participants, IRA owners, and beneficiaries.

- RMDs normally required to be taken for 2020 are waived.

- This waiver also applies to individuals who turned 70½ in 2019 but who did not take their first RMD before January 1, 2020. In the absence of additional relief, the next RMD for those individuals must be taken by December 31, 2021.
- For purposes of counting the five-year period for beneficiary distributions, 2020 is disregarded and one year is added to the remaining period. For example, for deaths occurring in 2019, the five-year period in which the inherited assets must be distributed will end on December 31, 2025, instead of on December 31, 2024.
- A distribution that is taken in 2020—but that is not an RMD because of the waiver—may be rolled over to another eligible retirement plan or to an IRA within 60 days of the distribution. Though such distributions may be rolled over, they are similar to CRDs in that they are not treated by employer plans as eligible rollover distributions for purposes of the 20 percent mandatory withholding, the 402(f) notice, or the direct rollover requirements.