Retirement Account Rule Changes Under the CARES Act

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For many Americans, the novel coronavirus (COVID-19) pandemic has resulted in an immediate need for funds that can provide financial stability. In response, lawmakers have lessened financial burdens through stimulus legislation that includes several temporary rule changes to retirement account withdrawals.

Let's look at some of the changes—and how you can access your retirement funds if you are experiencing financial distress.

CARES Act May Provide Short-Term Relief

Signed into law on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) is an unprecedented $2.2 trillion relief package that includes provisions (described below) allowing for the temporary relaxation of several key retirement account rules.

A waiver of the 10 percent early withdrawal penalty for retirement account distributions. The CARES Act waives the 10 percent early withdrawal penalty tax normally assessed on pre-age 59½ withdrawals, up to $100,000, across all retirement plan or IRA accounts, if you meet at least one of the following criteria:

- You have been diagnosed with COVID-19.
- Your spouse or dependent has been diagnosed with COVID-19.
- You face adverse financial circumstances arising from COVID-19, including, but not limited to, being quarantined, having work hours reduced, being laid off, or being unable to work because of a lack of childcare.

Further, if you receive a distribution for the reasons above, you may waive the 20 percent mandatory federal tax withholding. You may roll the distributed amount back into your retirement plan or IRA within three years from the date the distribution was taken. If you choose not to return the funds into a qualified account, you will owe taxes on the distributed amount (which also can be repaid over three years).

Increased retirement plan loan maximums. If you are affected by COVID-19; meet one of the criteria above; and your employer allows you to take a loan from your 401(k), 403(b), or other retirement plan account, you may take the lesser of $100,000 or 100 percent of your vested account balance (a significant increase from the 50 percent of your vested account balance, up to a maximum of $50,000, under normal rules). If you take a loan between March 27, 2020, and December 31, 2020, you may delay the loan repayment for up to one year.

A temporary waiver of required minimum distributions (RMDs). Generally, when you turn 72 (or 70½ if you reached that age on or before December 31, 2019), you must take an RMD from your IRA, 401(k), 403(b), or other qualified retirement plan account. If you were required to take an RMD in 2020 (either from your own IRA or defined contribution plan account or as a beneficiary taking life-expectancy payments), the CARES Act waives that requirement. How can you benefit?

Because RMDs are calculated on your account value at the end of the previous year—when account values were likely significantly higher than they are in current depressed market conditions—not taking an RMD in 2020 could allow you to avoid withdrawing an inflated amount and paying a bigger tax bill.

What If You Already Took Your RMD?

If you have already taken your 2020 RMD (or your 2019 RMD, for those who deferred their first distribution until 2020), you may roll the distributed assets back into your account within 60 days without taxes or penalties.

If it has been more than 60 days since you took your 2020 RMD, the IRS has issued Notice 2020-23. Under that guidance, time-sensitive actions due April 1, 2020, have been extended to July 15, 2020. Therefore, distributions taken between February 1, 2020, and May 15, 2020, will be eligible for a 60-day rollover until July 15, 2020. Distributions taken before February 1, 2020, are no longer eligible for a 60-day rollover contribution.

What If Taxes Were Withheld from a Previously Distributed 2020 RMD?

If the 60-day rollover applies to your distribution, the gross amount can be returned as a rollover contribution, including the amount your received and any taxes previously withheld.

Generally, firms cannot reverse tax withholdings after a distribution is executed. These taxes paid will be reported on your 2020 Form 1099-R and may be refundable when filing your 2020 tax return.

The Importance of Professional Guidance

Under normal circumstances, withdrawing retirement funds is not recommended; however, given the effect of the COVID-19 pandemic on the financial security of millions of Americans, you may turn to retirement accounts to keep you afloat. As with any newly introduced legislation or change to financial transaction rules, the situation is fluid and additional clarification may be coming from regulatory agencies. As such, be sure to reach out to us or your financial institution if you have questions about waiving your RMD this year.

We're available to provide you with guidance and consultation throughout these challenging times. If you have any questions regarding the article or would like to review any aspect of your retirement accounts or financial plan, we are here to help. Please contact ***Josh Murray, CFP®*** of ***Tupler Financial*** at ***(908) 203-8811***.

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