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RETIREMENT PLAN CHANGES IN STIMULUS ACT

The CARES Act passed by congress and signed by the president on March 27, 2020 makes several temporary changes to the tax code related to retirement plans for "coronavirus related distributions".

The act defines a coronavirus distribution as any distribution from an eligible retirement plan made on or after January 1, 2020 and before December 31, 2020 to an individual who is either:

1. Diagnosed with the virus by a test approved by the Centers for Disease Control and Prevention
2. Whose spouse or dependent is diagnosed with the virus by such a test **or**
3. Who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to the virus, being unable to work due to lack of child care, closing or reducing hours of a business owned or operated by the individual due to such virus or disease, **or**
4. Other factors as determined by the Secretary of the Treasury or his/her delegate.

Under the new temporary regulations, an individual may take a coronavirus related distribution of up to $100,000 in 2020 with no 10% early withdrawal penalty regardless of the individual's age.

Taxpayers may, at any time during the 3 year period beginning on the day after the date on which the distribution is received, make 1 or more contributions to any of their eligible retirement plans. In effect this changes the requirement to repay the distribution from a 60 day time frame to a 3 year time frame and gives the taxpayer the ability to determine when and how much to repay.

Any amounts repaid will be considered a direct trustee to trustee transfer. Any amount required to be included in gross income because it is not repaid shall be included ratably over the 3 taxable year period beginning with the year it becomes taxable.

The Act also increased the maximum amount of a loan from an employer sponsored qualified plan from $50,000 to $100,000 for loans made during the 180 period beginning on March 27, 2020. It also delays the due date of any repayments coming due between March 27, 2020 and before December 31, 2020 by 1 year with any subsequent payments being adjusted to reflect the delay in the due date and interest accruing during the delay.

In addition to making it easier for retirement plan participants to tap into their plan to access funds needed in these trying times, the Act also contains a temporary waiver for minimum required distributions. For 2020, taxpayers required to take a minimum required distribution, including those from inherited IRA's, do not have to take the 2020 RMD. It may make more sense for a taxpayer to take their 2020 RMD if their income will drop them into a lower tax bracket as a result of the economic effects of the pandemic.

For those who have already taken the RMD, it will have to be included in their 2020 taxable income and taxes will have to be paid. However, the old 60 day rollover rule to redeposit the funds into an IRA or another qualified retirement account still can be used to avoid the tax. So taxpayers who didn't need the funds might be able to return the distribution within this time limit. Another possibility for those who will experience a drop in income that will put them in a lower tax bracket would be to convert the RMD funds to a Roth IRA within the 60 day time limit.

A few other retirement plan rules have been suspended or changed in the CARES Act. The mandatory 20% income tax withholding for rollover distributions is suspended and since the filing deadline for 2019 income tax returns has been extended to July 15, 2020, the deadline for making a 2019 IRA contribution is also extended to July 15, 2020.