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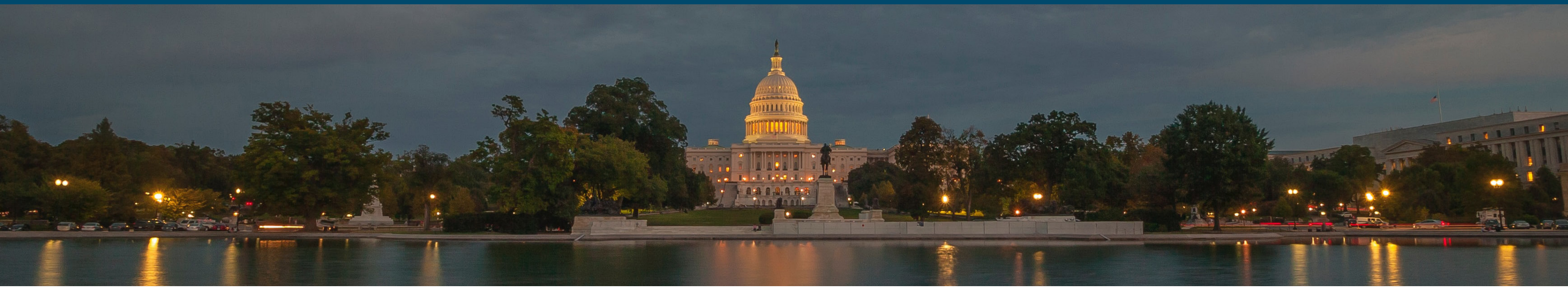

Unwinding 2020 RMDs

Just when I was beginning to believe that I was getting a handle on the new required minimum distribution (RMD) rules that Congress passed in December as part of the SECURE Act, Congress modified them for 2020. Furthermore, there may be more changes around the corner.

SECURE Act RMD Changes

By way of background, the SECURE Act contained the most comprehensive retirement legislation since 2006. The Act made two significant changes to the required minimum distribution (RMD) rules.

First, it established a new date to begin taking withdrawals as April 1 of the calendar year following the year in which the individual attains age 72, rather than April 1 of the calendar year following the year in which the individual attains age 70½. The new beginning date rule applies to individuals who turned 70 on or after July 1, 2019. Individuals who turned 70 in 2019 prior to July 1, 2019 must continue to follow the age 70 ½ age start date rule.

Second, before the Secure Act, the RMD rules allowed a non-spouse beneficiary to stretch inherited retirement account distributions over IRS-defined life expectancy. The SECURE Act eliminated the ability for most beneficiaries to stretch distributions. Now, except for a group of so called “eligible designated beneficiaries” that include a spouse, child while a minor, and disabled or chronically ill beneficiaries all other designated beneficiaries must distribute inherited IRAs and 401k accounts within 10 years.

This was how the RMD rules stood until the Coronavirus hit and Congress passed the CARES Act on March 27.

CARES Act Waives RMD for 2020

Congress recognized that the economic fallout created by the Coronavirus caused the markets to be very volatile. So, as part of the CARES Act Congress suspended RMDs for 2020 for both retirement account owners as well as beneficiaries. In Suspending RMDs Congress felt this would give many Americans the ability to leave their investment portfolios alone to recover over the next year. However, there have been lots of questions concerning what happens to individuals who have already taken RMDs this year who want to return no longer necessary RMDs.

Two Options for Owners Who Want to Return Already Distributed RMDs

For owners who already took a distribution there may be two different approaches for returning unwanted amounts. First, normally an IRA or retirement plan owner can return unwanted distributions within 60 days under the rollover rules. Normally, the 60-day rollover technique does not apply to RMDs, but since no RMDs are due in 2020 the 60-day rollover can be used. However, there are limitations to this rule. First, non-spouse beneficiaries cannot do a 60-day rollover. Second, IRA owner can only do one rollover within a 365-day time period. So, if an IRA owner has already done a rollover s/he will be disqualified from doing the 60-day rollover. This one per year rule only applies to IRA to IRA rollovers and not to company plans. Finally, the rollover had to be within 60 days of receipt. However, now the 60-day requirement has been modified by the recent IRS Notice 2020-23.

In Notice 2020-23 the IRS postponed many tax deadlines to July 15, 2020. In doing this it provided a way for some individuals to rollback unwanted RMDs even if they are beyond the 60-day time period. Specifically, if the RMD was taken between February 1 to May 15 the distribution can be rolled back as long as it is done by July 15, 2020. Unfortunately, this most recent modification to RMD does not help the individual who took distributions in January, or beneficiaries who do not qualify for the 60-day rollover rule. For these individuals there may be another approach to returning unwanted RMDs.

For account distribution owners who have been impacted by the Coronavirus enough to qualify under the liberal guideline for Coronavirus related distributions, it appears that distributions up to $100,000 in 2020 can be repaid anytime within the next three years. This provision includes distributions as early as January 1, 2020. To be eligible for this approach the account owner or their spouse needs to be diagnosed with the Coronavirus, or they need to experience adverse financial consequences as a result of the pandemic due to being quarantined, laid off, furloughed, have childcare issues or a number of other reasons. This is a very broad guideline.

This new Coronavirus distribution provision is not tied to the RMD rules, but it does permit individuals to repay the amount as a rollover when the Coronavirus related distribution guidelines are met. One concern raised by this provision is whether the IRS will limit its application to distributions by individuals under the age of 59 ½ since the CARES Act provides this relief provision waives the 10% penalty and the penalty is only associated with people under 59 ½.

How Can DBS Help?

For more information about the RMD rules after the SECURE Act contact DBS' inhouse advanced case design resource Terri Getman, JD, CLU, ChFC, RICP, AEP (Distinguished) at extension 230.

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