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Individuals No Longer Have to Take Minimum Required Distributions from Retirement Accounts in 2020

By Lisa H. Lipman

A new Act that was approved by Congress last week eliminated the requirement that retirees must take a required minimum distribution from their retirement account in 2020.

The CARES Act, the $2 trillion coronavirus-relief bill passed by Congress, includes provisions that make it easier for people to access their retirement savings and give retirees options to defer required minimum distributions (RMDs). The President signed it into law on Friday.

The ability to defer taking an RMD is important because an RMD is calculated based on the value of an account as of December 31, 2019, when the stock market was at a much higher level than it is today. This means that a taxpayer's RMD - and the taxes that must be paid as a result of taking the RMD - is calculated based on a value that was likely considerably greater than the present value of the retirement account. If you do not need to make a withdrawal to pay your living expenses, leaving the RMD in your retirement account can result in significant tax savings.

Prior to 2020, a retirement account holder was required to take his or her first RMD by April 1 of the year he or she turns 70½. Failure to withdraw the RMD results in a 50% penalty of the RMD amount. The Secure Act retirement-system overhaul raised the age for RMDs to 72; however, a taxpayer who turned 70½ last year would still be required to pay RMDs this April.

The Act includes additional provisions regarding retirement accounts, but these provisions only apply to someone who either: (1) contracted the coronavirus; (2) have a spouse or dependent who contracted the coronavirus; or (3) experienced a negative financial consequence due the coronavirus (such as quarantine, a business closure, or reduced hours). They are:

A waiver of the 10% early withdrawal penalty for any retirement fund distributions up to $100,000 that were made on or after January 1, 2020, but before December 31, 2020, from qualified retirement plans.

Any income that can be attributed to early withdrawal is subject to tax over a three-year period, and the taxpayer may recontribute the withdrawn amounts to a qualified retirement plan without regard to annual caps on contributions if made within three years.

Eligible individuals can withdraw up to $100,000 from their retirement accounts, in total, without penalty as long as they pay back the distributions within three years.

For more information regarding estate planning options created by the CARES Act, please contact your Roetzel estate planning attorney.

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