

CARES Act: Retirement Plan Changes for 2020

By David L. Reich

INTRODUCTION

While most of the CARES Act focuses on providing economic relief for businesses, certain provisions temporarily impact the rules for retirement plans and required minimum distributions.

WITHDRAWALS AND LOANS

The CARES Act suspends tax penalties for certain distributions and loans from 401(k) accounts and IRAs. In general, to be eligible for these retirement plan changes, (a) an individual must have been diagnosed with the COVID-19 virus, (b) the individual's spouse or dependent(s) must have been diagnosed with COVID-19, or (c) the individual must have experienced adverse financial consequences as a result of quarantine, furlough or layoff, reduction in work hours or closing, reduction in business, or inability to work as a result of lack of child care. An individual whose business was closed or had reduced operating hours as a result of Coronavirus also is eligible.

Qualified individuals are entitled to make an early withdrawal of up to \$100,000 of retirement fund assets, without being subject to the customary 10 percent penalty. This applies to distributions taken between January 1, 2020 and December 31, 2020. The income tax on the withdrawal can be spread out over a three-year period, beginning with the year of the withdrawal. Alternatively, an individual may treat the withdrawal as a loan to be repaid over a three-year period.

For retirement plan loans made between March 27, 2020 and December 31, 2020, the maximum allowable loan amount is \$100,000 or 100 percent of the vested balance, whichever is lower. Those with existing unpaid plan loans with a payment due in 2020 may defer the required payments for one year.

REQUIRED MINIMUM DISTRIBUTIONS AND CONTRIBUTIONS

The CARES Act waives any minimum distribution requirements for 2020. This includes those for inherited IRAs and for traditional IRAs for those over age 72.

Individuals who have already taken a 2020 RMD will have to pay taxes on it as part of their gross income in their 2020 tax year filing—unless the distribution is returned to the IRA or deposited into another qualified retirement account within 60 days of issuance. An RMD distribution may also be converted into a Roth IRA.

The deadline for making a 2019 contribution to an IRA has been extended to July 15, 2020 to align with the recently modified deadline for filing 2019 income tax returns.

If you have questions about the CARES Act, please contact your Lawrence Kamin attorney.

This document has been prepared by attorneys at Lawrence Kamin, LLC ("Lawrence Kamin") for informational purposes only. It is general in nature and is not intended as legal advice. Further, it is based on legal authorities that are subject to change. Accordingly, readers should consult with a licensed attorney and may wish to seek the advice from their own counsel with respect to any situation that involves the material contained in this document, including the application of such material to their specific circumstances.

© 2020 Lawrence Kamin. All rights reserved. Attorney Advertising Material.