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Retirement Plan Distributions



Learn About ...

- When you can take distributions from a retirement plan
- Enhanced distribution options in federally declared disaster areas
- Required minimum distributions from your retirement plan and IRA
- Required distributions to beneficiaries after death
- How tax reform affected retirement plans
 - Employees that terminate with outstanding loan balance
 - Recharacterizing Roth conversions

When Can You Take a Distribution?

IRAs and IRA-based Plans

- Traditional IRA or SEP-IRA
 - Distributions can be taken at any time
 - 10% additional tax on early distributions (prior to attaining age 59 ½)
- SIMPLE IRA plan
 - Distributions can be taken at any time
 - If account is 2 years old or more, 10% additional tax on early distributions
 - If account is less than 2 years old, 25% additional tax on early distributions
- Roth IRA
 - Distributions can be taken at any time
 - If prior to 59 ½ or if Roth IRA is less than 5 years old, earnings are taxable



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When Can You Take a Distribution?

Qualified Retirement Plans

- Distributions on retirement
- Distributions on another distributable event
- Hardship withdrawals
- Loans



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Distributions at Retirement

Qualified Retirement Plans

- When do benefits begin
- How do I receive my benefits
- Taxes and withholding

Distributions before Retirement

Qualified Plans

- 401(k) – may allow
 - at age 59 ½, death, disability, severance, hardship
- Profit-sharing plan – may allow after
 - Reaching a fixed age, or fixed period of time
- Defined benefit and money purchase plans may allow after
 - Retiring or reaching retirement age
 - At age 62, even if normal retirement age is later
- Plan loans and hardship distributions



Plan Loans

- Loan requirements
 - Plans are not required to allow loans
 - Must be bona fide loan
 - Max: Lesser of 50% of vested account balance, or \$50,000
 - Reasonable interest rate
 - Substantially equal payments
 - Generally, must be paid within 5 years



Plan Loans

- Taxable participant loans
 - Failure to make loan payments
 - Upon separation from service
 - Due date of tax return plus extensions to rollover outstanding loan balance
 - 10% early distribution tax may apply



Hardship Distributions

- Plans that allow for salary deferrals may (but not required to) permit hardship distributions
- Immediate and heavy financial need
- Limited to amount necessary to satisfy need
- Taxing hardship distributions
 - No mandatory 20% withholding
 - Subject to income tax
 - 10% early distribution tax may apply
 - May not be rolled over



Hardship Distribution Changes

- Changes to hardship distribution rules for 2019
 - repealed the 6-month suspension of elective deferrals
 - QNECs & QMACs and earnings now available as a hardship distribution
 - No longer required to take available plan loans first
- Proposed regulation for hardships
 - revises standards governing when a distribution can be made on account of hardship
 - permits hardship distributions to participants seeking to repair a primary residence, even if that repair would not otherwise qualify for a casualty loss deduction



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Disaster Relief – Retirement Plans

- Affected plan participants may be able to
 - avoid the 10-percent additional tax on early distributions
 - include qualified disaster distributions in income over three years
 - repay distributions within three years
 - borrow more funds as a plan loan
 - repay plan loans over a longer period
- Use [IRS.gov/disaster](https://www.irs.gov/disaster) to help determine which disasters are eligible for this relief

Required Minimum Distributions

- Required Beginning Date – Age 70½
 - Calculation: Publication 590-B, chapter 1
- RMD from an IRA, SIMPLE IRA, SEP IRA
 - Take from one to satisfy all IRA RMD requirements
- RMD from a retirement plan
 - Must take separate RMD from each plan
 - An RMD not properly taken from a plan may cause qualification issue for plan as well as excise tax for account owner
- Qualified charitable distributions from IRA





RMD - Special Situations

- Still working at same employer
- Still working, but at a different employer
- Work beyond 70½ - Separate from service on 12/31/xx
 - When is RMD due?
- Started RMD, rehired
 - Can I stop RMD?
 - Retire again on 12/31/xx. When is RMD due?
- No longer 5% owner



Distributions After Death

- Joint & survivor or other annuity
- Take a lump sum distribution from plan
- Transfer assets to your own IRA
 - Only available to spouse
- Transfer assets to an inherited IRA
- Transfer assets to estate

Lump Sum Distribution Options

- All the assets are distributed to the beneficiary
- No 10% early distribution tax, even if deceased or beneficiary is under 59 1/2
- The distribution is subject to
 - ordinary income tax
 - mandatory 20% withholding





Designated Beneficiary is Spouse

IRA in Spouse's Name

- Surviving spouse must be sole designated beneficiary
- Distributions prior to 59 ½ are subject to 10% early distribution tax
- IRA is treated as your own IRA
- IRA is eligible for conversion to Roth IRA
- Deceased account holder's RMD must be made prior to the rollover
- After rollover, RMD based on age of surviving spouse



Designated Beneficiary - “Any Person” Inherited IRA

- *Jane Doe as beneficiary of John Doe*
- Two payout options:
 - Payments, based on single life expectancy of beneficiary, must begin by end of year following year of death, or
 - All assets must be fully distributed by the end of the fifth year following year of death
- Account holder over 70 ½



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Account Holder Death No Designated Beneficiary

- What if:
 - designated beneficiary died prior to account holder's death
 - the beneficiary forms are lost
- Deceased's account becomes part of the estate
- Estate is not an individual and has different distribution requirements



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Beneficiary Not an Individual Estate, Charity

- Account owner dies on or after RBD
 - Account balance can be distributed based on the life expectancy listed for owner's age as of birthday during year of death
- Account owner dies before RBD
 - Entire account balance must be distributed by the end of the fifth year following the year of the owner's death
 - No distribution is required before that fifth year



Designated Beneficiary Dies

- After death of original account holder, but prior to the September 30 date
- During the period after they started taking payments
 - Goes to beneficiary's beneficiary
 - Payments must continue based on original beneficiary's life expectancy
 - And so on
- Doris the spouse



Correcting Plan Mistakes

- IRS Voluntary Compliance Programs
 - Self-Correction Program
 - Voluntary Correction Program
 - Audit CAP
- Recently expanded SCP to cover some loan failures and plan document failures
- [IRS.gov/FixMyPlan](https://www.irs.gov/FixMyPlan)

Tax Reform Changes Affecting Retirement Plans

- Plan participants that terminate employment with an outstanding loan balance
 - Generally have loan balance offset against distribution
 - Now have until the due date of their tax return (plus extensions) to rollover the loan offset
- Recharacterizations of Roth conversions no longer allowed





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Questions and Resources

- [IRS.gov/retirement](https://www.irs.gov/retirement)
- Sign up for Employee Plans News, our retirement plan newsletter