



IRS Nationwide
TaxForum | 2020

Retirement Plan Distributions,
Loans and More

The CARES Act and
The SECURE Act

Seminar Objectives

- Learn how to determine if you're a 'qualified individual'
- Learn about the expanded distribution and repayment options, and tax issues for coronavirus-related distributions
- Learn about the relief provided for loans from retirement plans
- Learn what to do if you received an RMD in 2020 and want to recontribute it to a retirement plan or IRA
- Learn about changes to retirement plans and RMDs in The SECURE Act
- Learn how The SECURE Act may help defray the costs of starting a new retirement plan

Coronavirus-related Guidance

The CARES Act – March 27, 2020

- Notice 2020-51
- Notice 2020-50
- Notice 2020-23

Qualified Individual

A qualified individual eligible for relief is anyone who:

- Is diagnosed, or whose spouse or dependent is diagnosed, with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention (CDC), including a test authorized under the Federal Food, Drug, and Cosmetic Act; OR

Qualified Individual (cont.)

- Experiences adverse financial consequences as a result of the individual, the individual's spouse, or a member of the individual's household:
 - being quarantined, being furloughed or laid off, or having work hours reduced due to COVID-19
 - being unable to work due to lack of childcare due to COVID-19
 - closing or reducing hours of a business they own or operate due to COVID-19
 - having pay or self-employment income reduced due to COVID-19
 - having a job offer rescinded or start date for a job delayed due to COVID-19

Eligible Retirement Plans

- IRAs
- Roth IRAs
- SEP IRAs
- SIMPLE IRAs
- SARSEP IRAs
- Profit sharing plans
- 401(k) plans
- 403(b) plans
- 457(b) plans (govt)
- Pension plans
- 403(a) plans

Coronavirus-related Distributions

- Must not exceed \$100,000 in the aggregate
- January 1, 2020, thru December 30, 2020
- Made from a retirement plan but plan not required to offer
 - Plan can accept your self-certification
- Made from an IRA
- Reported on Form 1099-R

Coronavirus-related Distributions Include

- Distributions from an IRA
- Distributions from a retirement plan account
- 2020 Required Minimum Distributions
- Loan offsets from a plan loan after leaving employment

Coronavirus-related Distributions Do Not Include

- Corrective distributions of elective deferrals and employee contributions to meet 415 limits
- Elective salary deferrals in excess of the 402(g) limits
- Excess 401(k) and 401(m) contributions
- Permitted withdrawals from an eligible automatic contribution arrangement
- Loans treated as deemed distributions under Section 72(p)
- Dividends paid on applicable employer securities - Section 404(k)
- Costs of current life insurance protection
- Distributions of premiums for accident and health insurance
- Prohibited allocations treated as deemed distributions - Section 409(p)

Taxes on Coronavirus-related Distributions

- No 10% tax on early distributions.
- Taxable amount of a coronavirus-related distribution can be spread over a 3-year period or taken in year of distribution
- Example: \$75,000 distribution made in 2020
 - CARES (Default):

TY2020 = \$25,000
TY2021 = \$25,000
TY2022 = \$25,000
 - CARES (Optional):

TY2020 = \$75,000

Recontribution Options

- Coronavirus-related distributions that are eligible for tax-free rollover treatment may be recontributed
 - over a 3-year period beginning on day after distribution
 - to any eligible retirement plan (including an IRA)
- A recontribution will not be treated as a rollover contribution for purposes of the one-rollover-per-year rule and will not cause the plan to exceed contribution limits

More on Recontribution

- You can claim a refund for income taxes paid on amounts that were subsequently repaid
- A coronavirus-related distribution does not affect substantially equal periodic payments
- If a qualified individual dies before the full coronavirus-related distribution is included in gross income, remainder must be included in income in the year of death

Loans from Qualified Retirement Plans

- Loan limits may be increased if made to a qualified individual on or after March 27, 2020, and before September 23, 2020
- Loans under the CARES Act are limited to the lesser of:
 - \$100,000, or
 - 100% of the vested account balance or accrued benefit
- Plan is not required to offer expanded loans
- Plan can rely on participant's self-certification

Loan Examples

- Example 1: \$120,000 Vested Account Balance
 - Standard rule: Lesser of \$50,000 or 50% vested benefit = \$50,000 max loan
 - CARES Act rule: Lesser of \$100,000 or 100% vested benefit = \$100,000 max loan
- Example 2: \$80,000 Vested Account Balance
 - Standard Rule: \$40,000 max loan
 - CARES Act Rule: \$80,000 max loan

Extended Loan Repayment

- Normal Rule: Loans typically must be paid back in equal installments over 5 years
- CARES Act Rule: For qualified individuals, plan administrators may suspend loan payments
 - Up to one year on new and existing loans outstanding from March 27, 2020 - December 31, 2020
 - New loans can have a 6-year term.

Required Minimum Distributions

- RMDs are waived for 2020
 - Not required to be affected by the coronavirus
 - Waiver includes those who turned 70 ½ in 2019 and received their first RMD in 2020
 - Also applies to inherited IRAs & beneficiary accounts
 - Waiver does not apply to defined benefit plans

Rollovers of RMDs Taken in 2020

- RMDs made in 2020 may be rolled over to an IRA or plan
- One rollover per 12-month rule waived for RMDs that are repaid to the distributing IRA
- 60-day rollover period extended to August 31, 2020, for 2020 RMDs
- Non-spouse beneficiary RMDs waived, may rollover if account holder died in 2019
- Sample plan amendment, 12-item Q&A - Notice 2020-51

SECURE Act

- Beneficiaries
- RMD beginning date changed from 70 ½ to 72
- Repeal of maximum age for traditional IRA contributions

Spousal Beneficiaries Deaths prior to 2020

Death occurred prior to required beginning date:

- Keep as an inherited account
 - Take distributions based on their own life expectancy, or follow the 5-year rule
- Roll over the account into their own IRA

Death occurred after the required beginning date:

- Same options but no 5-year rule

Spousal Beneficiaries Deaths after 2019

Death occurred prior to required beginning date:

- Keep as an inherited account
 - Take distributions based on their own life expectancy, or follow the 10-year rule
- Roll over the account into their own IRA

Death occurred after the required beginning date:

- Same options but no 10-year rule

Non-spouse Beneficiary Definitions

Eligible designated beneficiary:

- SECURE Act defines as a spouse or minor child of the deceased account holder, a disabled individual, a chronically ill individual, and an individual who is not more than 10 years younger than the IRA owner or plan participant

Designated beneficiary:

- An individual designated as the beneficiary of an IRA or retirement plan

Non-spouse Beneficiaries Deaths prior to 2020

Death occurred prior to required beginning date (or Roth IRA):

- Take distributions based on their own life expectancy, or
- Follow the 5-year rule

Death occurred after the required beginning date:

- Distributions based on life expectancy

Non-spouse Beneficiary Death after 2019

Eligible designated beneficiary:

- Take distributions using the 10-year rule, or
- Over their life expectancy

Designated beneficiary is not eligible designated beneficiary:

- Must take distributions using the 10-year rule

Beneficiary that is not an individual:

- Must take distributions using the 5-year rule

RMDs Begin at Age 72

IRAs

- RMDs required for year you turn 72, unless
- You reach age 70 ½ in 2019 or before

Retirement Plans

- RMDs are required for the later of
 - Year you no longer work for employer (if not 5% owner)
 - Age 72 (70 ½ if reach 70 ½ in 2019 or earlier)

Repeal of Maximum Age for IRA Contributions

- Contributions after age 70 ½ were not allowed for the 2019 tax year or prior years
- Beginning with the 2020 tax year, the maximum age for making IRA contributions is repealed

Qualified Birth or Adoption Expenses

- SECURE Act allows an individual to receive a distribution for certain expenses related to the birth or adoption of a child, without the application of the 10% additional tax
- Distribution must be taken from an applicable eligible retirement plan and must be made during the 1-year period beginning on the date the child is born or the legal adoption is finalized
- Each parent may take a distribution of up to \$5,000 for each child born or adopted, if each distribution meets the requirements for a qualified birth or adoption distribution

Small Business Tax Credit Starting a New Plan

- \$250 per non-highly compensated employee eligible for the plan
- Up to a maximum tax credit of \$5000 per year for 3 years
- Available for employers with up to 100 employees
- Credit available for starting a SEP, SIMPLE, 401(k) and profit-sharing plans

Small Business Tax Credit Adding Auto-Enrollment

- Arrangement must be an eligible automatic contribution arrangement
- Available for employers with up to 100 employees
- One-time 3-year credit per employer
- \$500 credit/year for three years, beginning with the first year employer includes the arrangement under any plan

Questions and Resources

- [IRS.gov/retirement](https://www.irs.gov/retirement)
- Sign up for the Employee Plans News, our electronic newsletter, at [IRS.gov/RetirementNews](https://www.irs.gov/RetirementNews)
- Small business resources