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  – having a job offer rescinded or start date for a job delayed due to COVID-19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 Recontribition

• 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
- Sign up for the Employee Plans News, our electronic newsletter, at IRS.gov/RetirementNews
- Small business resources