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Did You Take Your 2020 RMD Too Soon?

Article Highlights:

- 2020 RMD Waiver
- What Are RMDs?
- Distributions Subject to the Waiver
- RMD Rollover
- Who Qualifies for a Rollover?

As part of the CARES Act, the requirement for older taxpayers to take required minimum distributions (RMDs) from their retirement plans has been waived for 2020. This is primarily due to the drop in value for most investments as a result of the economic effects of COVID-19.

RMDs are required distributions from qualified retirement plans and are commonly associated with traditional IRAs, but they also apply to 401(k)s and SEP IRAs. The tax code does not allow taxpayers to indefinitely keep funds in their qualified retirement plans. Eventually, these assets must be distributed, and taxes must be paid on those distributions. If a retirement plan owner takes no distributions, or if the distributions are not large enough, then he or she may have to pay a 50% penalty on the amount that is not distributed.

RMDs historically have needed to begin in the year when the retirement plan owner became age 70½, but a late 2019 tax law change (the SECURE Act) upped the starting age to 72 for years after 2019. The first year's distribution can be delayed to no later than April 1 of the subsequent year. However, delaying the first distribution means taking two distributions in the subsequent year.

The CARES Act RMD waiver applies to:

- The 2020 RMD for taxpayers who turned 70½ before 2020.
- The 2019 RMD for taxpayers who turned 70½ in 2019 and chose to defer their first distribution to 2020.
- The 2020 RMD for taxpayers who turned 72 in 2020.
- The RMDs for beneficiaries.

RMD Rollover: The 2020 waiver for RMDs was not announced until the CARES Act was passed on March 27, 2020. Normally, an RMD cannot be rolled over, but the CARES Act essentially changed 2020 RMDs into eligible rollover distributions, which can be rolled over within 60 days of being received. Some individuals subject to the RMD requirements had already taken their RMD before the CARES Act was enacted and did not have the opportunity to roll the RMD back into their retirement account if the 60-day rollover period had already expired.

The IRS has alleviated that issue by disregarding the normal 60-day rollover requirement and allowing individuals that took an RMD in 2020 to roll the RMD back into their retirement plan by no later than August 31, 2020. This means that if you took a distribution in 2020, you can roll it back into the retirement plan and avoid being taxed on it in 2020, if you do so by August 31, 2020.

Be aware, however, that any part of the distribution from a traditional IRA or qualified retirement plan that you don't roll over will be taxed. This means that if federal and/or state income tax was withheld from the distribution and you want to roll over the distribution, you will need to use funds other than those from the distribution in order to fully roll it over. Regrettably, the withholding can't be refunded when you make the rollover. Instead, the withheld tax will be claimed as a credit on your 2020 return. In this case, your 2020 estimated tax installments and/or withholding on other income can be adjusted.

This repayment is not subject to the one rollover per 12-month period limitation and the restriction on rollovers for inherited IRAs.

And, unless further relief is provided, the RMD requirements will resume in 2021. If you have questions or wonder what the pros and cons are related to a rollover, please give this office a call.