Retirement Plan Distributions and Loans in the CARES Act and More
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Agenda

• How to determine a Cares Act ‘qualified individual’
• Expanded distribution, repayment options, and tax issues for coronavirus-related distributions
• Relief provided for loans in retirement plans
• RMDs received in 2020 and want to recontribute it to a retirement plan or IRA
• 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
• Small business resources
The CARES Act – March 27, 2020

- Notice 2020-51
- Notice 2020-50
- Notice 2020-23
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  – having a job offer rescinded or start date for a job delayed due to COVID-19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
Polling Question #1

I’m a qualified individual and take a $100,000 coronavirus-related distribution. Can my spouse also take a coronavirus-related distribution?

A. Yes, but only to meet a financial need
B. Yes, up to $100,000
C. No
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)
• 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): $25,000
   TY2020 = $25,000
   TY2021 = $25,000
   TY2022 = $25,000
  – CARES (Optional): $75,000
   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 Recontributions

- 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.
If I’m a qualified individual, what distributions (taken prior to Dec. 31) can I claim as coronavirus-related distributions on my 2020 tax return?

A. Distributions from a retirement plan or IRA
B. Required minimum distributions
C. Plan loan offsets (when you leave employment)
D. All the above
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.
Polling Question #3

Have you or a client taken a coronavirus-related distribution or used the increased limits on coronavirus-related loans?

A. Yes, distributions only
B. Yes, loans only
C. Yes, both distributions and loans
D. No
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
• Beneficiaries
• RMD beginning date changed from 70 ½ to 72
• Repeal of maximum age for traditional IRA contributions
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 Beneficiary
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
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
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
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
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)
• 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 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 first year employer includes the arrangement under any plan
Polling Question #4

Can I rollover a required minimum distribution?

A. Yes, every year
B. No, never
C. Yes, but only RMDs taken in 2020
D. Yes, but only RMDs taken in 2020 if you’re a qualified individual
Resources and Questions

- IRS.gov/coronavirus
- IRS.gov/retirement
- Sign up for Employee Plans News, our electronic newsletter, at IRS.gov/RetirementNews
Questions and Resources

• Publication 3998, Choosing a Retirement Solution for your Small Business

• IRS.gov/SmallBizPlans

• IRS.gov/retirement

• IRSvideos.gov

• Employee Plans News
  • IRS.gov/RetirementNews