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Answers to CARES Act FAQ

President Trump signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020. The CARES Act is an historic stimulus package and contains recovery rebates, expanded unemployment benefits, financial assistance for small businesses, funds for hospitals and health care providers and loans for airline and other hard-hit industries.

Some CARES Act provisions offer relief for retirement plans participants and charitably inclined persons.

Suspended: RMDs for 2020

The Act suspends 2020 RMDs from IRAs, qualified plans, 403(b) plans and 457(b) plans for account owners, plan participants and beneficiaries. It also waives 2019 RMDs that were due by April 1, 2020.

What if an IRA owner or plan participant already took their RMD for 2020?

IRA owners and plan participants who took their RMD within the last 60 days may be eligible to roll over those distributions to another eligible IRA or retirement plan. Normally, RMDs may not be rolled over, but these are no longer considered RMDs since there are no RMDs for 2020. If the distribution occurred more than 60 days ago, it may be repaid to another eligible retirement plan if it is a coronavirus-related distribution (see below). Such a distribution may be repaid within three years. There is no relief for non-spousal beneficiaries as they are never allowed to roll over distributions (only transfer).

What about non-designated beneficiaries subject to the five-year rule or designated beneficiaries subject to the new 10-year rule?

Under the Act, non-designated beneficiaries subject to the five-year rule can disregard 2020. Thus, if an IRA owner died in 2018, leaving his IRA to his estate, the estate would have had until 12/31/2023 to distribute the entire amount. Now, the estate has until 12/31/2024. There is no impact on any beneficiary under the new SECURE Act rules. While the deceased IRA owner or plan participant would not have a final RMD as a result of the CARES Act, no beneficiary would have had an RMD until 2021 anyway and those subject to the 10-year rule would not have had one until 12/31/2030.

Added: Exception to 10% Early Distribution Penalty

The Act provides a new exception to the 10% early distribution penalty for any coronavirus-related distribution. A coronavirus-related distribution is any distribution in 2020 to an individual who is diagnosed with COVID-19 by a CDC-approved test or whose spouse or dependent is diagnosed with such disease by such a test or who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of childcare due to such virus or disease, closing or reducing hours of a business owned or operated by the individual due to such disease, or other factors as determined by the Secretary of Treasury.

What other special rules apply to a coronavirus-related distribution?

The total amount of distributions considered to be coronavirus-related is limited to $100,000. The amount of any such distributions can be included in income ratably over 2020, 2021 and 2022. Individuals can elect out of this provision and may want to do so if their income in 2020 will be substantially lower than expected in 2021 and 2020. Any coronavirus-related distribution may be repaid to a rollover-eligible retirement plan anytime within the three-year period beginning on the day after the date such distribution was received. Any individuals who repay coronavirus-related distributions should file an amended return for the year or years the distributions were included in income.

Increased: Loan Limits from Qualified Plans and 403(b)s

The Act increases the amount that qualified individuals may borrow from their retirement plans. During the 180-day period beginning on March 27, 2020, the maximum amount they may borrow is the lesser of $100,000 (doubled from $50,000) or 100% of the present value of their non-forfeitable accrued benefit of the employee under the plan.

Any other relief related to plan loans?

Yes, due dates from March 27 through the end of 2020 on any such loans to qualified individuals are delayed by one year. In determining the usual five-year repayment period, the period from March 27 through the end of 2020 is disregarded.

Who are qualified individuals for purpose of the increased loan limits and delayed due dates?

Qualified individuals are those who meet the requirements for a coronavirus-related distribution (see above).

Also Added: Incentive for Charitable Contributions

The Act includes a new above-the-line deduction for a cash contribution to a qualified charity for up to $300 for any individual that does not itemize. It also increases the adjusted gross income (AGI) limit for a cash contribution by a person who does itemize from 60% of AGI to 100% of AGI. Contributions to donor-advised funds or supporting organizations are not considered a qualified charity for these purposes.

Are these charitable contribution changes temporary?

Interestingly, both provisions have temporary in their headings in the Act. However, both effective dates simply read effective for tax years beginning after 2019. They appear to be permanent but a technical correction in the future could limit them to 2020 only.

Act on CARES Act Contact Opportunities

Take advantage of the changes made by the CARES Act to reach out to your clients. Help ensure that their retirement and legacy plans remain on track for them and their beneficiaries.

Have a CARES Act question? Contact us. Or visit WSFinancialPartners.com.