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Dear Client,

We hope that you and your family are all safe and healthy during this very unfortunate time.

Over the past few months, the government has passed numerous pieces of legislation in hopes of stimulating employment and the economy. This legislation is called the "CARES ACT." Included in the Cares Act is the stimulus payment that many individuals have been receiving, as well as the Paycheck Protection Program (PPP) for small businesses. Additional components of this Act are the suspension of Required Minimum Distributions (RMD's) for tax year 2020 only, and the ability to take a Corona-Virus Distribution (CVD).

Suspension of Required Minimum Distributions (RMD's) for 2020

The government has suspended the requirement to take required minimum distributions during 2020 to provide relief to retirees. This suspension of RMD's applies to all IRA accounts (including SEP and SIMPLE IRA's) and defined contribution plan accounts, such as those under 403(a), 403(b), 401(a) and 401(k) plans, as well as the Federal Thrift Savings Plan (TSP). Distributions previously taken can be re-contributed back into your retirement account under certain circumstances.

The suspension of RMD's for year 2020 might produce tax savings for certain individuals. Below is an explanation of the RMD suspension:

1) You are not required to take your RMD for year 2020.

2) If you have already taken your RMD this year and it was after February 1, 2020, you would normally have until April 1, 2020 (60 days from date of distribution) to recontribute for it not to be taxable. Legislation indicates that if your due date for the 60-day rollover period falls between April 1st and before July 15th, you will have until July 15, 2020 to repay your RMD to your retirement account without it being taxable. Please note that you are only able to do one rollover in a 12-month period.

3) Distributions that were taken in January 2020 are currently ineligible to be repaid back into your accounts unless legislation is passed to change this. We will notify you should this happen.

If you have not taken any distributions so far in 2020 or would like to re-contribute monies you have previously taken, we suggest that you contact your financial advisor or tax professional to discuss your options. Everyone's tax and financial situation is different and should be reviewed in detail before making any decisions.

Please refer to this link to an informative article relating to the information discussed above.

https://www.kitces.com/blog/2020-rmd-waived-cares-act-irs-notice-2020-23-fix-unwanted-rmd-rollover/

Corona-Virus Distribution (CVD)

The CARES ACT also included a provision that makes it easier for those affected by the coronavirus pandemic to access retirement funds. Individuals affected by Covid-19 can withdraw up to $100,000 from an eligible retirement plan. Eligible retirement plans include traditional and Roth IRA's, SEP's, employer 401(k) and 403(b) plans (these plans must allow for this), tax-sheltered annuities, government plans and nonqualified deferred compensation plans, or a combination of these. The 10% penalty will be waived for distributions made in 2020 if you are under the age of 59 1/2. Once taken, you will have the option to re-contribute this distribution back into your eligible retirement plan within three years of the withdrawal date and treat the withdrawal and later re-contribution as a tax-free rollover.

For this distribution to qualify as a CVD, you would need to fall into one of the following categories:

1) You, your spouse, or your dependent has been diagnosed with Covid-19.

2) You have experienced adverse financial consequences because of being quarantined, furloughed, laid off, or having reduced work hours due to Covid-19.

3) You are unable to work because of lack of childcare due to Covid-19 and experience adverse financial conditions as a result.

4) You own or operate a business that has closed, has reduced operating hours due to Covid-19 and experienced adverse financial conditions as a result.

5) You have experienced adverse financial consequences due to other Covid-19 factors.

There will likely be additional guidance issued in the future relating to exactly what numbers 4 and 5 cover.

You will have up to three years to re-contribute the amount that you took as a CVD. These re-contributions can be done as a lump sum or through multiple re-contributions. You will also have the option of paying tax on the entire distribution in 2020 or over a three-year period.

401(k) Loans

The CARE's Act also increases the amount that you can borrow from your 401(k) plan. Through September 22, 2020, you can borrow 100% of your vested account balance up to $100,000 (less any outstanding loans). This is up from the normal $50,000 limit. In addition, for any outstanding loans, the due date for payments due through December 31, 2020 can be delayed up to one year.

Summing it up

In summary, the information stated above is just general information and each client's circumstance is unique. We strongly suggest that you speak with either your tax advisor, or one of our tax professionals, before making any decisions.

Stay safe and healthy!!

REDFIELD, BLONSKY & STARINSKY, LLC

Alan B. Starinsky CPA, PFS
Partner

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