COVID-19

The Tax Blotter – April 2020

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The new Coronavirus Aid, Relief, and Economic Security (CARES) Act includes several tax breaks intended to provide tax relief to participants in qualified retirement plans—like 401(k) and 403(b) plans—and IRAs.

Skip RMDs this year. For many retirees, taking required minimum distributions (RMDs) from qualified plans and IRAs is ingrained. This generally applies after you've reached age 72 (recently increased from age 70½, beginning in 2020). But now the CARES Act says you can skip RMDs altogether in 2020, even for inherited accounts. If you've already received payouts in 2020, expect the IRS to issue guidance on workarounds.

Make an early withdrawal: Generally, the IRS will slap a 10% penalty tax on top of your regular tax liability if you take a withdrawal from a qualified plan or IRA before age 59½. However, the tax code allows for several exceptions, such as distributions made on account of disability. Now the CARES Act adds to the list: For 2020, you can withdraw up to $100,000 of "coronavirus-related" funds without paying the penalty tax.

Time is on your side. The CARES Act carves out several special rules for COVID-19 distributions. Notably, you can receive up to $100,000 in payouts from qualified plans and IRAs in 2020 and pay tax ratably over a three-year period. In addition, if you repay the full amount within the three years, the event will be treated as a rollover that is exempt from federal income tax. Expect the IRS to issue guidance soon on the application of these rules in 2020.