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**Ken Berry** • Dec. 08, 2020



Normally, retirees in their seventies or older arrange to receive required minimum distributions (RMDs) from retirement accounts at the end of the year. Otherwise, they could be held liable for a severe tax penalty, on top of the regular income tax they would owe on the RMDs.

But this year is not like most—for many reasons. As far as RMDs go, the Coronavirus Aid, Relief, and Economic Security (CARES) Act passed back in March suspends the RMD rules for 2020. You don't have to take any RMDs in 2020 if you don't want to.

In other words, the tax “move” you might make at the end of this year is to do nothing at all! At other times, you may decide to stick with the program.

Here's some more background information: Generally, you are obligated to begin

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for the 2020 tax year would typically be based on your account balances on December 31, 2019.

There is a limited “still working” exception for plan participants who are currently employed and don't own 5% or more of the company. But this exception doesn't apply to IRA participants.

If you fail to meet your RMD obligations, the IRS can impose a penalty equal to a staggering 50% of the amount that should have been withdrawn (or the difference between the required amount and a lesser amount actually withdrawn). This penalty is added to the regular income tax that is due on the RMD at ordinary income rates reaching as high as 37%.

**New law to the rescue:** The CARES Act waives the rules for RMDs for the 2020 tax year. Subsequent to the law's enactment, the IRS gave taxpayers until August 31 to redeposit RMDs taken earlier in the year. If you didn't undo any previous RMDs, you're still liable for the regular tax.

In many cases, you may simply take advantage of this tax law change and allow the funds in your retirement accounts to continue to grow tax-deferred. But suppose you're relying on the RMDs for income each year. Depending on your situation, you may decide to take some or all of the RMDs as usual in December.

**Caution:** Don't leave this to the last minute. Give the financial institution enough time to make the necessary arrangements.

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