Retirement Planning:
What the SECURE Act and CARES Act changed in 2020

When Congress passed the SECURE Act and CARES Act, the landscape changed dramatically for required minimum distributions (RMDs) and for individual retirement accounts (IRAs).

The two laws, first the Setting Every Community Up for Retirement Enhancement (SECURE) Act and then the Coronavirus Aid, Relief, and Economic Security (CARES) Act, were implemented in late 2019 and early 2020. Each took a multi-pronged approach to providing economic support to the individuals and businesses affected. The longer-term impacts of the new laws will result from retirement relief.

REQUIRED MINIMUM DISTRIBUTIONS

The IRS issued guidance for both the SECURE Act and CARES Act that explained and expounded on the waiver relief.

Key points:

- The most impactful portion of the SECURE Act was the increase of the starting age for RMDs from 70½ to 72 as of Jan. 1, 2020. This is a permanent change.
- The CARES Act waived RMDs for the 2020 calendar year. The waiver included beneficiaries who inherited accounts, plus those who turned 70½ in 2019 but waited to take their first distribution until 2020.
- Those taking their first RMDs have until April 1 of the following year to take it. Anyone waiting until April 1 will then be required to take two RMDs in the same calendar year (not changed).
- Any repayment of an RMD made prior to Aug. 31, 2020 will be treated as a tax-free rollover, and won't be subject to the IRS rule that allows only one rollover every 12 months.
- If you turned 70½ by the end of 2019, you will resume taking RMDs in 2021. You would simply take the normal, calculated amount. If you did not turn age 70½ by the end of the 2019, you are not required to take your first RMD until April 1 of the year after you turn age 72.

OTHER RETIREMENT PLAN PROVISIONS

- Starting this year, individuals who are 70½ or older are able to continue making traditional IRA contributions. Now anyone at any age who has earned income can make an IRA contribution. However, income limits still apply when it comes to determining whether the contribution is tax-deductible.
- If an individual is making an IRA contribution after age 70½ and is also making a qualified charitable distribution (QCD), the QCD will be reduced by the cumulative amount of IRA contributions made after age 70½.
- Rules that allowed a non-spouse IRA (traditional or Roth) beneficiary to "stretch" RMDs from an inherited account over their lifetime (and potentially allow the funds to grow tax-deferred or tax-free for decades) have been changed. A non-spouse IRA beneficiary will now be required in most cases, unless an Eligible Designated Beneficiary (EDB), to distribute the funds within 10 years. The rule also applies to inherited funds from a 401(k) account or other defined contribution plan. This applies only to beneficiaries of someone who dies after Dec. 31, 2019 and on.
- If an IRA beneficiary is an EDB, they will not be required to distribute the account in 10 years if the IRA owner dies in 2020 or after. This applies to spouses, disabled or chronically ill beneficiaries; anyone who is not more than 10 years younger than the IRA owner who died; or certain minor children of the decedent IRA owner, until they become adults.
- A new exception has been added to the normal 10% early-withdrawal penalty for IRAs. Now up to $5,000 per individual and per birth can be withdrawn penalty-free from an IRA for a "qualified birth or adoption distribution." Amounts also may be paid back.

The new rules also waive the 10% additional tax penalty for premature distributions from retirement plans and IRAs for "Qualified Individuals" of COVID-19-related amounts not to exceed $100,000 (not available after Dec. 31, 2020).

RETIREMENT RELIEF FOR "QUALIFIED INDIVIDUALS"

- The Internal Revenue Service's definition of a "Qualified Individual" is someone who is diagnosed with COVID-19, has a spouse or dependent who is diagnosed with COVID-19, or who experiences adverse financial consequences as a result of quarantine, furlough, layoff or reduced work hours, lack of childcare, or closing of a business. In addition, it includes an individual having a reduction in pay (or self-employment income), having a job offer rescinded or start date for a job delayed. This also includes the individual's spouse or a member of the individual's household (someone who shares the individual's principal residence) or other factors as determined by the Secretary of the Treasury. The IRA custodian or plan may rely on participant certification that the condition(s) are met. Please consult with your tax advisor for the specific determination.

CHARITABLE CONTRIBUTIONS

The new rules relax some of the limitations on charitable contributions, allowing a deduction of up to $300 of cash contributions, regardless of whether the individual itemizes deductions. For those who itemize their deductions, the 50% of adjusted gross income limit is suspended for 2020. The rules also increase the 10% limit on corporations to 25% of taxable income, and increases the 15% limitation on food inventory to 25%.

STUDENT LOANS

The definition for employer-provided educational assistance is expanded to include up to $5,250 in student loan payments made by an employer by the end of 2020. The rules suspend student loan payments automatically with no interest or penalties accruing during the period. Involuntary collections on student loans are also suspended, which includes offsetting an income tax refund.

While both the CARES Act and SECURE Act initially included a variety of other provisions not related to retirement planning, many were temporary and have expired. Please consult with your tax advisor for more information.

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