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YourFuture Business Newsletter

IRS Reminds Taxpayers of Recent Changes to Retirement Plans

The Internal Revenue Service reminds taxpayers about the rules for required minimum distributions (RMDs) from retirement accounts.

A retirement plan account owner must normally begin taking an RMD annually starting the year he or she reaches 70 ½ or 72, depending on his or her birthdate and maybe the year he or she retires. Retirement plans requiring RMDs include traditional, Simplified Employee Pension Plan (SEP) and Savings Incentive Match Plan for Employees (SIMPLE) Individual Retirement Accounts; 401(k), 403(b), 457(b), profit sharing and other defined contribution plans.

The Setting Every Community Up for Retirement Enhancement (SECURE) Act changed the age when an individual must begin taking withdrawals from his or her retirement account. Someone born on or before June 30, 1949, was required to start getting RMDs for the year he or she reached the age of 70½. However, under the SECURE Act, if an individual's 70th birthday is July 1, 2019, or later, he or she does not have to take a first RMD until the year he or she reaches age 72.

The Coronavirus, Aid, Relief and Economic Security (CARES) Act waived RMDs during 2020. Therefore, seniors and retirees, including beneficiaries with inherited accounts, were not required to take money out of IRAs and workplace retirement plans. The waiver included RMDs for individuals who turned age 70½ in 2019 and took a first RMD in 2020.

Individuals who reached age 70 ½ before 2020 and were still employed, but terminated employment in 2020, would normally have a 2020 RMD from a workplace retirement plan due by April 1, 2021. This RMD also is waived as part of the CARES Act relief. Roth IRAs do not require withdrawals until after the death of the owner.

2021 RMDs

Individuals who reached 70 ½ in 2019 or earlier, did not have an RMD due for 2020. For 2021, these individuals will have an RMD due by December 31, 2021. Individuals who did not reach age 70 ½ in 2019 will reach age 72 in 2021 will have a first RMD due by April 1, 2022, and a second RMD due by December 31, 2022. To avoid having both amounts included in the individual's income for the same year, the taxpayer can make the first withdrawal by December 31, 2021, instead of waiting until April 1, 2022. After the first year, all RMDs must be made by December 31.

An IRA trustee must either report the amount of the RMD to the IRA owner or offer to calculate it for the owner. Calculating the amount of the RMD depends on the type of IRA or if the distributions are from multiple accounts. Not taking a required distribution, or not withdrawing enough, could mean a 50% excise tax on the amount not distributed.

Some Individuals Can Delay RMDs

Though the April 1 deadline for taking the first RMD is mandatory for all owners of traditional IRAs, participants in workplace retirement plans who are still working usually can, if the plan allows, wait until April 1 of the year after retirement to start receiving distributions from these plans. Individuals who reached age 70 ½ before 2020 and were still employed, but terminated employment in 2020, would normally have a 2020 RMD from the workplace retirement plan due by April 1, 2021. This RMD is also waived as part of the CARES Act relief.

Employees of public schools and certain tax-exempt organizations should check with their employer, plan administrator or provider to see how to treat these accruals.

Coronavirus-Related Distributions and Loans

The CARES Act made it easier to access savings in IRAs and workplace retirement plans for those affected by the coronavirus. This relief provided favorable tax treatment for certain withdrawals from retirement plans and IRAs, including expanded loan options. ***Distributions*****:** Certain distributions made from January 1, 2020, through December 30, 2020, from IRAs or workplace retirement plans to qualified individuals may be treated as coronavirus-related distributions. These distributions are not subject to the 10% additional tax on early distributions (including the 25% additional tax on certain SIMPLE IRA distributions).

Taxes on coronavirus-related distributions are includible in taxable income:

- Over a three-year period, one-third each year, or
- If elected, in the year you take the distribution.

Coronavirus-related distributions may be repaid to an IRA or workplace retirement plan within three years.
If there was an outstanding loan balance when the employee left employment, the plan sponsor will usually offset the loan balance against any benefit.

- For loan offsets in 2020, the taxpayer has until the due date of the tax return (plus extensions) to repay that amount to another retirement plan or IRA.
- If the taxpayer is a qualified individual, the taxpayer can treat the loan offset as a coronavirus-related distribution and have three years to repay to an IRA or include in income tax ratably over three years.

RMDs**:** An IRA owner or beneficiary who received an RMD in 2020 had the option of returning it to his or her account or other qualified plan to avoid paying taxes on that distribution. RMDs in 2020 that were not rolled over or repaid may be eligible to be treated as coronavirus-related distributions if the individual is a qualified individual. A 2020 RMD that otherwise qualifies as a coronavirus-related distribution may be repaid over a 3-year period or have the taxes due on the distribution spread over three years.

A withdrawal from an inherited IRA to a qualified individual may also be a coronavirus-related distribution. Income from the withdrawal may be spread over three years for income inclusion. However, the withdrawal may not be repaid to the inherited IRA. IRS Notice 2020-51 provides that the one rollover per 12-month period limitation and the restriction on rollovers to inherited IRAs does not apply to repayments made by August 31, 2020. The RMD suspension does not apply to qualified defined benefit plans.

The CARES Act includes special rules for plan loans made to qualified individuals. Plans could suspend loan repayments for up to one year, although, typically, repayments resumed in January 2021. This effectively gives up to six years (instead of five) to repay a typical plan loan.

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