

Required Minimum Distributions From Retirement Plans Have Been Waived for 2020 - IRS Notice 2020-51 May Give Taxpayers That Have Already Received Distributions a "Mulligan" If They Act Timely

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The Coronavirus Aid, Relief, and Economic Security ("CARES") Act waives the requirement that taxpayers take required minimum distributions ("RMDs") for 2020 from IRAs, 401(k) plans and other defined contribution plans. Taxpayers who already took 2020 RMDs may be able to return them to their retirement plans or IRAs and avoid paying income tax on the distributions. The timing, however, is critical.

Notice 2020-51, issued by the IRS last week, provides needed clarity about this provision of the CARES Act.

Background

RMDs are minimum annual distributions that Congress requires taxpayers to begin taking from their IRAs and other qualified retirement plans after they turn a specified age. Previously that age was 70½, which was prospectively changed to age 72 by the SECURE Act, enacted on December 20, 2019. Normally, taxpayers must begin taking RMDs by April 1 of the year following the year in which they reach the specified age. As we [previously reported](#), the CARES Act waives the requirement for plan participants and IRA owners to take RMDs in 2020, including 2019 RMDs that were required to be taken by April 1, 2020.

Retirement plan participants and IRA owners who receive distributions prior to the age of 59½ are also generally subject to a 10 percent early withdrawal penalty, unless they receive a series of substantially equal periodic payments over the life or life expectancy of the participant or owner (or the joint life expectancies of the participant/owner and his or her

designated beneficiary).

Generally, distributions from retirement plans and IRAs may be rolled over to other retirement plans or IRAs within 60 days of the date of distribution without subjecting the participant or owner to tax.

Beneficiaries (other than surviving spouses) of retirement plans and IRAs must distribute the entire plan balance within five years of the participant's or owner's death. The CARES Act provides that the five-year distribution rule is determined without regard to 2020. In other words, it extends the five-year period to six years if one of the years includes 2020.

The CARES Act provides that most retirement plans can operate in accordance with expected amendments in light of the changes made by the CARES Act if the amendments are adopted no later than the last day of the first plan year starting in 2022.

Notice 2020-51

Notice 2020-51 expressly provides the following with respect to 2020 RMDs:

- Permits rollovers of waived RMDs;
- Extends the 60-day rollover period for certain distributions to August 31, 2020;
- Answers questions regarding the waiver of 2020 RMDs; and
- Provides a sample plan amendment with respect to waived RMDs.

Each of these items is discussed below.

Distributions Eligible for Rollover

The IRS will allow the following RMDs to be rolled over:

- Distributions to plan participants paid in 2020 (or paid in 2021 for 2020 for participants with required beginning dates of April 1, 2021), if the distributions equal the amount of 2020 RMDs that participants would otherwise be required to take absent the CARES Act; and
- Distributions to plan participants with required beginning dates of April 1, 2021 that would be 2021 RMDs absent the CARES Act.

Extension of 60-Day Rollover Period

The 60-day rollover period for RMDs from qualified retirement plans and IRAs is extended to August 31, 2020. Thus, taxpayers have until the end of August to roll over any distributions previously received this year that would have been 2020 RMDs absent the changes made by the CARES Act. Taxpayers may do so simply by repaying the funds to their IRA or qualified plan.

Questions and Answers

In Notice 2020-51, the IRS answered 12 questions relative to the RMD waiver provisions of the CARES Act. We include a few select answers below:

- IRAs do not need to be amended for 2020 RMDs to be waived.
- The CARES Act extends the time for making a direct rollover for a non-spouse designated beneficiary if the participant died in 2019. The non-spouse beneficiary has until the end of 2021 to make the direct rollover.
- The CARES Act does not extend other deadlines, including:
 - The September 30 deadline following the year of death in Treas. Reg. § 1.401(a)(9)-4, Q&A-4 (relating to the determination of designated beneficiaries);
 - The October 31 deadline in Treas. Reg. § 1.401(a)(9)-4, Q&A-6(b) (relating to the date by which the trustee of a trust that is a plan's designated beneficiary must provide the plan administrator certain information); and
 - The last-day-of-the-year deadline in Treas. Reg. § 1.401(a)(9)-8, Q&A-2(a)(2) (relating to the date by which separate accounts must be established).
 - The CARES Act does not affect payments that are part of a series of substantially equal periodic payments under the "RMD method" for determining such payments, such that these payments will be subject to the early withdrawal penalty if they cease.
 - IRA trustees, issuers and custodians must notify IRA owners that no 2020 RMDs are due.
 - The 2020 RMD waiver does not apply to distributions from defined benefit plans that use the rule in Treas. Reg. § 1.401(a)(9)-6, Q&A-1(d)(1) (under which the plan determines the portion of a single sum distribution that is an RMD as if it were an individual account plan).

Sample Plan Amendments

Notice 2020-51 contains a sample plan amendment as an appendix. The form is designed for plans that follow the format of a preapproved plan, using a "basic plan document" and a separate "adoption agreement." Amendments to plans that do not use a separate adoption agreement should be tailored appropriately. According to the IRS, the adoption of the sample amendment will not result in the loss of reliance on a favorable opinion, advisory or determination letter.

Conclusion

As discussed above, the CARES Act waives RMDs for 2020. Notice 2020-51 provides helpful guidance to taxpayers and tax professionals. The ability to return unneeded distributions that were only taken due to RMD requirements may help reduce the tax burden of some individuals and allow them to keep more money in their retirement plans and IRAs during these tumultuous times.

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