NEWS ALERT

TRUSTS & ESTATES

To Withdraw, or Not to Withdraw, is (Temporarily) Not the Question: The CARES Act Relaxes Several Key Retirement Account Rules

By Shera G. Golder | April 9, 2020

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") into law. The CARES Act makes advantageous changes to several retirement plan distribution rules. These include:

- Coronavirus related distributions from eligible retirement plans are not subject to the 10% excise tax on early distributions.
- Loans of up to $100,000 (increased from $50,000) from qualified employer plans are permitted in the 180 days beginning March 27, 2020.
- Minimum distribution rules for IRAs and certain defined contribution plans are waived for calendar year 2020.

Coronavirus Related Distributions Not Subject to 10% Excise Tax

Normally, withdrawals from retirement accounts prior to attaining age 59 ½ are subject not only to ordinary income tax, but to an additional 10% penalty tax. The CARES Act has eliminated this penalty tax in situations where you take a "coronavirus-related distribution" from your retirement account. This means that if you, your spouse, or your dependent have been diagnosed with COVID-19, and if you have experienced financial hardship as a result of being quarantined, furloughed or laid off, or having your work hours reduced, or if you cannot work because of lack of childcare, then you may withdraw up to $100,000 from your retirement plan free of the 10% penalty on premature distributions. In addition, you can spread the resulting income over three taxable years or even avoid recognizing the income by repaying the distribution to your retirement plan within three years of receipt.

Loans from Retirement Plans

Prior to the CARES Act, you were allowed to borrow up to the lesser of $50,000 or 50% of your vested qualified retirement plan benefits. Loans in excess of that amount were treated as taxable distributions. Now, these amounts have been increased to allow you to take loans up to the lesser of $100,000, or 100% of your vested plan benefits in the 180 days beginning March 27, 2020. In addition, if you have an outstanding loan from a qualified employer plan with a repayment date between March 27, 2020 and December 31, 2020, you now have a one-year extension to repay the plan loan, and subsequent payments as well as interest accruals will be adjusted accordingly.

Waiver of Minimum Distributions Rules

Once you turn age 72, you must take required minimum distributions (RMDs) annually from qualified retirement plans and IRAs. After your death, your beneficiaries must also begin taking RMDs. The CARES Act provides that RMDs for almost all retirement plans are suspended for 2020, including 2019 initial RMDs due by April 1, 2020. In addition, if distributions from a qualified retirement plan or IRA are required to be made over a 5-year period that includes calendar year 2020, calculations of the distribution period may disregard calendar year 2020.

Please contact your Murtha Cullina attorney if you have any questions about these new rules.

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