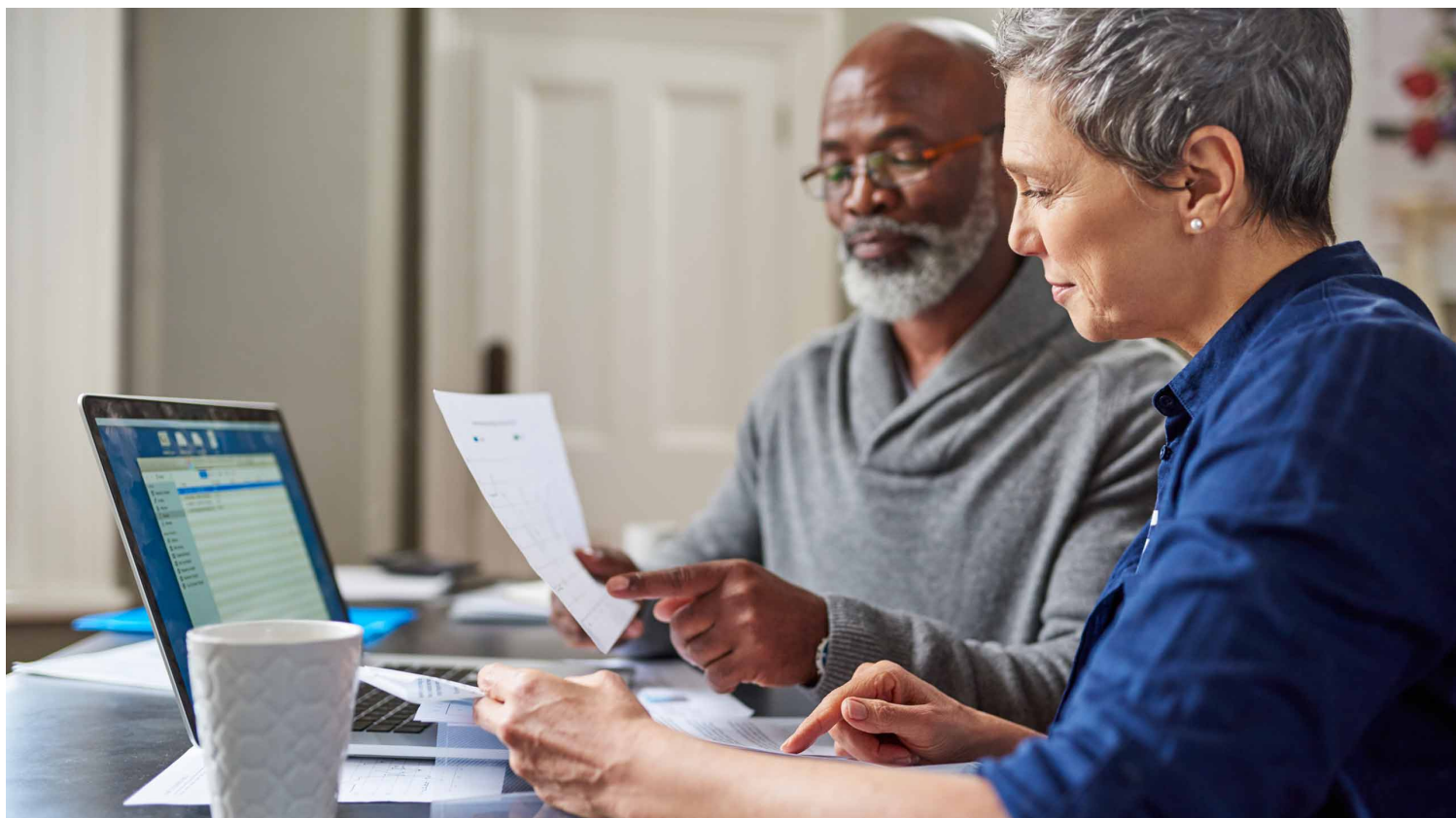


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Can You Forgo Taking RMDs in 2020?

By Schwab Center for Financial Research



The Coronavirus Aid, Relief, and Economic Security (CARES) Act, recently passed into law, includes a number of measures designed to stimulate the economy. One provision allows retirees to forgo taking Required Minimum Distributions (RMDs) from IRAs or 401(k)-type plans this year.

RMD amounts are based on the value of the account at the end of the previous year. “Because most accounts have seen a steep decline in 2020, the amount of the required withdrawal would have been a much larger percentage of a retiree’s account,” explains Rob Williams, VP of financial planning, retirement income and wealth management at the Schwab Center for Financial Research (SCFR). “The new law lets retirees keep that money in their accounts, potentially recouping some of the market losses when the economy turns around.”

Hayden Adams, CPA, CFP®, and director of tax planning at SCFR, offers answers to some common questions retirees are asking about RMDs in light of the CARES Act:

1. Do retirees have to take RMDs from retirement accounts in 2020?

“No, all RMDs have been suspended for 2020,” says Hayden. This waiver includes any retirement account subject to RMDs, such as IRAs, 401(k)s, Roth 401(k)s and inherited accounts.

2. What age do I have to be in order to qualify for the waiver?

If you are subject to RMDs, the waiver applies to you regardless of age. It includes original account owners over age 70½ (or 72, under the SECURE Act), original account owners who turned 70½ in 2019 but have not taken their distribution yet, and inherited-IRA beneficiaries of any age (see number 3, below).

3. Does the waiver apply to inherited IRAs?

Yes. The waiver extends to inherited IRAs (including stretch IRAs), as Schwab interprets the law. It even appears that inherited IRAs with non-spousal beneficiaries, which would normally need to be liquidated within 5 years of the original account-holder's death, are not required to take a distribution in 2020. You should consult with your tax advisor, but Schwab's interpretation is that beneficiaries have an extra year to fulfill the 5-year requirement, since RMDs can be skipped in 2020.

4. If I already took an RMD in 2020, can I reverse it?

“Technically, the distribution can't be reversed,” says Hayden.

“However, based on our current understanding of the CARES Act, if the distribution was within the last 60 days, we believe that you can re-contribute the amount back into your retirement account—assuming the distribution qualifies for a rollover.” (This does not include most inherited retirement accounts; see number 6 below.) Unfortunately, you can't reverse the tax withholding, but depending on other factors in your tax situation, the IRS could refund the withdrawal when your 2020 return is filed.

5. What if I took my 2020 RMD more than 60 days ago?

“You may still be able to re-contribute the distribution,” says Hayden, “if you can demonstrate a coronavirus impact as defined by section 2202 of the CARES Act.”¹ Broadly speaking, it's an “impact” if you, a spouse, or somebody in your household got the virus, or if the virus

negatively affected you financially (such as making you unable to work, or getting laid off). You may be able to count the distribution as coronavirus-related and re-contribute the amount over the next three years.²

6. If I have an inherited IRA and already took an RMD for 2020, can I re-contribute the distribution?

Inherited IRA distributions are not generally eligible for a rollover; therefore, assuming the IRS offers no other guidance, distributions that have already been taken can't be re-contributed.³ However, it's possible that a beneficiary affected by the coronavirus will be able to count the amount as a coronavirus-related distribution and re-contribute the amount.

7. Are defined benefit plans (such as pensions) also included in the RMD waiver?

"No, defined benefits plans are not included, so if you're supposed to take distributions from a defined benefit (DB) plan you must continue to do so," says Hayden.

8. Under Internal Revenue Code 72(t), I'm taking "substantially equal periodic payments" penalty-free from my retirement account. Does the RMD waiver apply to me?

No, it doesn't appear the waiver covers this type of distribution. A substantially equal periodic payment is not the same as an RMD, which means you'll have to continue to take those distributions.

Expect more details from the IRS soon.

“The IRS will be releasing additional guidance in the coming days or weeks to address other situations and questions that have been raised because of the CARES Act,” says Hayden. Schwab will be watching closely for that guidance.

In the meantime, consider these questions and answers an initial interpretation of the new law—not personalized tax advice. For that, you should talk with a CPA or tax professional who is familiar with your particular situation.

¹Click [here](#) to read the relevant text of the bill.

²Click [here](#) to read the relevant text of the bill.

³It’s possible that a spouse who inherited a retirement account may be able to have a distribution qualify for a rollover. Speak to a tax professional if you fall into this particular situation to determine if your distribution is rollover-eligible.

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