THE IRS CARES AFTER ALL – CALLS “DO-OVER” ON SOME 2020 RMD RULES

By Tom Bassett, J.D., CPA

Following baseball umpiring protocol, the IRS reminds us that a pitch is not a strike against you until the IRS calls it a strike, especially as it applies to recently revised IRA rules in the Coronavirus Aid, Relief and Economic Security Act (CARES Act.)

In late June, the IRS issued another in a series of notices and announcements to give taxpayers more guidance about the CARES Act and distributions for 2020.

Many older taxpayers with an Individual Retirement Account (an “IRA”) have a “required minimum distribution” (or “RMD”). This is the amount that has to be withdrawn from the IRA by the end of each year. It’s based on the value of the account at the end of the prior year, the age of the taxpayer, and other factors, such as whether the IRA was inherited.

The CARES Act, enacted in March 2020, waived the requirement for taxpayers to take RMDs for 2020.

But this left taxpayers who had already taken an RMD for 2020 down in the count before stepping to the plate. It appeared the IRS initially provided relief, but only to some taxpayers and in some instances. The initial grant of relief applied only to distributions taken on or after February 15th, 2020 – if you had taken <u>one</u> distribution from an IRA, you had until July 15th, 2020 to make a “rollover” of that distribution – the same or another IRA – as an “indirect rollover”. Taxpayers are generally only permitted one indirect rollover in a rolling 12 month period of time, so if you had done an indirect rollover in late 2019, you were stuck – you couldn’t take a distribution from early March 2020 and redeposit it under the initial relief.

After much criticism, the IRS has broadened the relief, in three important ways.

First – the relief is for <u>any and all</u> distributions taken after 2019 – not just one distribution. For example: if you had started a series of monthly distributions from your IRA, you could now redeposit <u>all</u> of those funds into an IRA, in effect, cancelling your 2020 distributions and resulting in no withdrawal for 2020 (consistent with the “no RMD required for 2020” portion of the CARES Act).

Second – the date to put those funds back into an IRA has been extended to August 31, 2020. So, if you had taken monthly distributions for six months in the first half of 2020, you have until the end of August to send the funds back. That added timing is very helpful as many asset custodians are still struggling to handle the volume of transactions in a distributed workforce environment.

Third – this entire “take all your distributions and put them back” transaction <u>is not going to count as an indirect rollover</u> for the one-in-12-months rule. That means more taxpayers will be able to take advantage of the relief.

Under prior guidance, had you done an indirect rollover in late 2019, you were barred from redepositing any of your 2020 distributions. Also, if you had done a redeposit of a 2020 distribution in April 2020, you were barred from doing any other indirect rollovers until April 2021.

Now the early birds who had already taken an RMD for 2020 get "an extra strike" – it's like your first strike in baseball was a "do-over" and you still have the rest of your full at-bat.

*Always consult with your CPA and professional advisor on matters involving taxes.

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Tom has managed the East region tax team for Commerce Trust Company since joining in 2012. He is responsible for the services his department provides to clients of Commerce Trust in the St. Louis, Springfield, Belleville, Peoria, and Bloomington offices. In addition to tax planning and consulting services to that client base, his group annually prepares more than 120 returns for charitable trusts and private foundations and more than 350 returns for individual, estate, gift, trust, and partnership clients of Commerce Trust. Tom also co-manages Commerce Trust's annual tax return preparation process, including reviewing and maintaining Commerce Trust's accounting system and the integration of this system with the organization's external vendor. Tom attended Washington University in St. Louis, earning two bachelor of arts degrees in physics and psychology, a juris doctorate, a master of business administration, and a master of science in business administration. He is a member of the Missouri Society of Certified Public Accountants, the American Institute of Certified Public Accountants, the Missouri Bar Association, The Bar Association of Metropolitan St. Louis, the American Association of Attorney-Certified Public Accountants, and the Estate Planning Council of St. Louis. Tom has chaired the audit, investment, and budget subcommittees of the Finance Committee of The Bar Association of Metropolitan St. Louis for several years.