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The IRA Digest

Retirement Account Strategies and Tips

Sept - Oct **2020**

Notice 2020-51: New Guidance Expands Eligibility for Non-RMD Rollovers. Action Must Be Taken by August 31, 2020, to Avoid Unnecessary Taxes!

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The CARES Act waived RMDs for 2020. But the waiver came too late for some RMD eligible taxpayers, leaving them holding the RMD-bag, so to speak. The IRS came to the recuse of those individuals by providing some creative solutions in IRS Notice 2020-51. Eligible individuals must act by August 31 to take advantage of these solutions.

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The Coronavirus Aid, Relief, and Economic Security (CARES) Act- signed into law on March 27, 2020- waived required minimum distributions (RMDs) that were due to be taken from IRAs and defined contribution plans in 2020. This waiver means that individuals who would have otherwise been required to take RMDs in 2020 no longer have to, and those who already took those distributions may now roll over those amounts. But many of these individuals were unable to roll over these non-RMDs for various reasons. To provide relief for these individuals, the IRS issued Notice 2020-51, in which they made exceptions to the rules that prevented them from legally completing these rollovers. The following are some of these exceptions:

Extending the 60-day Rollover Deadline to August 31, 2020
An individual who takes a distribution from a retirement account must include the amount in income unless that amount is properly rolled over. One requirement that must be met for a rollover to be 'proper' is rolling over the amount within 60 days of receipt. The IRS has the authority to waive the 60-day deadline under certain circumstances. That authority was used to waive the deadline for any 2020 non-RMDs, for which the 60-day deadline ended August 30, 2020, or earlier. Under this waiver, those non-RMD amounts may be rolled over by August 31, 2020.

This applies to RMDs from IRAs and defined contribution plans- including 401(k) plans, profit-sharing plans, 403(b) plans, 403(a) plans, and governmental 457(b) plans.

Waiving the One-Per-12-Month-Period Limitation on IRA-to-IRA Rollovers
An individual who takes a distribution from an IRA and rolls over that distribution (or a portion of it) to the same type of IRA is deemed to have performed an IRA-to-IRA rollover. The following would be considered IRA-to-IRA rollovers:

- A distribution from a Traditional, SEP or SIMPLE IRA, that is rolled over to a Traditional, SEP or SIMPLE IRA
- A distribution from a Roth IRA, that is rolled over to a Roth IRA

An individual may perform only one-IRA-to-IRA rollover during a 12-month-period.

This created a challenge for traditional IRA owners who took their RMDs in periodic payments, as only one of those RMDs could be rolled over to another traditional IRA during a 12-month period. The IRS provided a solution by treating any rollover of these amounts as repayments that are exempt from this limitation, provided the rollover contributions were made to the same IRA from which the distributions were made.

Allowing Nonspouse Beneficiaries to Roll Over RMDs from Beneficiary IRAs
A nonspouse beneficiary who takes a distribution from an inherited retirement account is not permitted to roll over any of that amount. Under Notice 2020-51, an exception is made for RMDs from inherited IRAs, by treating the rollover as a repayment. This too must be completed by August 31, 2020, and must be made to the same IRA from which the RMD was taken.

These Exceptions Apply Only to RMDs
The exceptions apply only to amounts that would have been 2020 RMDs had it not been for the waiver under the CARES Act. Distributions in excess of these non-RMDs may be rolled over only if they meet general rollover requirements. An exception applies to coronavirus-related distributions, as these amounts may be rolled over within 3 years and are not subject to the one-per-12-month rollover rule that applies to IRA-to-IRA rollovers.

Eligible Individuals Must Act Now
Eligible individuals who want to take advantage of the August 31, 2020 extension must take required steps promptly. IRA custodians and plan administrators should be contacted regarding their rollover procedures, to ensure that applicable requirements are met. If an employer plan does not accept rollovers, the amount may be rolled over to another eligible retirement plan by the deadline.

Please do not hesitate to contact us with questions about these and other rules that apply to retirement accounts.

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