

The IRA Digest

Retirement Account Strategies and Tips

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4 IRA Tax Planning Tips for the 2020 4th Quarter

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We are now in the final review period for retirement account transactions for the year. Perform a last-minute check-up now to identify opportunities.

December 31 is the cutoff date for completing certain transactions and taking advantage of some tax-efficient strategies for retirement accounts. As we get close to that deadline, a final review should be done to determine whether opportunities remain that should be put in play. To that end, the following are just 4 of the many that should be considered.



1. 2020 is a NonRMD Year- Allowing More Money to Remain Tax-Deferred

Generally, retirement account owners who reached age 70½ by December 31, 2019, must take required minimum distributions (RMDs) from their retirement accounts. For employer plans, this can be deferred past age 70½ until retirement. The age is increased to 72 for other individuals. Certain beneficiaries must also take RMDs from their inherited retirement accounts.

For some taxpayers, it is preferred if no RMD is taken, so that the amounts remain in the accounts and continue to benefit from tax-deferral. The good news for these individuals is that the Coronavirus Aid, Relief, and Economic Security (CARES) Act, waived RMDs for 2020. As a result, distributions from retirement accounts for 2020 are optional. This waiver applies to retirement accounts held by retirement account owners and those with beneficiary (inherited) accounts. **Note:** This RMD waiver does not apply to defined benefit pension plans.

Tip: Individuals who had their RMDs prescheduled for automatic distributions and do not want those amounts distributed should contact their financial institutions to cancel those distributions.

2. NonRMDs Might Be Returned and Excluded from 2020 Income

Individuals who already took distributions earmarked as RMDs and want to return those amounts to their retirement accounts have 60 days to do so. This 60-day period starts when the individual receives the distribution.

If the 60-day deadline is missed, the account owner might be eligible for a waiver, one of which is if the distribution qualifies to be a coronavirus-related distribution (CRD)- defined later. For a CRD, the 60-day deadline is extended to 3 years.

Individuals who miss the 60-day deadline and do not qualify to treat the distribution as a CRD should talk to their advisors to determine if they qualify for other waivers.

Caution:

- RMDs from beneficiary accounts may not be rolled over. An exception applies if the beneficiary is the surviving spouse of the retirement account owner.
- An individual may perform an IRA-to-IRA rollover only once during a 12-month period. An IRA-to-IRA rollover occurs when an individual takes a distribution from an IRA and rolls over the amount (or a portion of it) to the same or another IRA of a similar type (non-Roth IRA to non-Roth IRA, or Roth IRA to Roth IRA). A rollover of a 2020 non-RMD is not permitted if it would break this rule. **Tip:** If the amount is eligible to be treated as a CRD, it is not subject to this limitation.

3. Coronavirus-Related Distribution Deadline Is December 30

A qualified individual may take a CRD from a retirement account from January 1, 2020, up to December 30, 2020. CRDs are subject to a limit of \$100,000 per person. In general, a qualified individual- for CRD purposes is one who- or his/her spouse or household member- was diagnosed with COVID-19 by a CDC approved test, or experienced adverse financial consequences as a result of COVID-19.

A qualified individual who takes a CRD may roll over the amount within 3 years after receiving the amount. The income from a CRD that is not rolled over may be spread ratably over three years. CRDs are not subject to the 10% early distribution penalty that applies to distributions that occur when the account owner is under age 59 ½.

4. Roth Conversion Deadline Is December 31

Roth IRA earnings accrue on a tax-deferred basis and are tax-free when the Roth account owner is eligible for a qualified distribution- such as after the account has been funded for at least 5 years and the owner is at least age 59 ½. For a Roth IRA, the 5-year period starts with the first Roth IRA that the individual funded. The 5-year period for designated Roth accounts usually applies on a per-account basis and starts when the account from which the distribution is being made was first funded.

This opportunity for tax-free earnings is the primary reason why the Roth is attractive to taxpayers, many of whom take advantage of opportunities to fund Roth accounts.

One of the ways a Roth account can be funded is by converting amounts from traditional accounts. For designated Roth accounts (Roth 401(k), Roth 403(b), and Governmental Roth 457(b)), the conversion may be done only if permitted under the employer's plan.

A Roth conversion can be done directly between a traditional retirement account and a Roth account or indirectly- where the amount is deposited to the Roth account within 60 days after the account owner receives the distribution from the traditional account.

An individual who is planning to convert any amount from a traditional retirement account to a Roth account must ensure that the amount leaves the traditional account by December 31.

Tip: Generally, RMDs must be taken before a Roth conversion is done. But that is not an issue for 2020, as there are no RMDs for 2020. Individuals who perform Roth conversions may no longer have them recharacterized (reversed), and income tax would be owed on any taxable portion of the conversion. Therefore, careful consideration must be given to the strategy before it is implemented. Ideally, a Roth conversion analysis should be done to determine suitability.

Start Sooner Rather than Later

As taxpayers wrap up their retirement plan moves and strategies for 2020, a once-over should be done to make sure that all required transactions are completed on time. This might mean submitting instructions to custodians and trustees earlier than December 31, as that is sometimes necessary to guarantee processing by December 31. Please be sure to contact us with questions about these and other rules that apply to IRAs and other retirement accounts.

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