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The IRA Digest

Retirement Account Strategies and Tips

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4 Key IRA Reminders for the 2020 Tax Season

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2020 is an unusual year for IRA activity. IRA practitioners must be aware of the 2020 exceptions to help their clients take advantage of available benefits.

The 2020 IRA season is here! With it comes many questions about whether the rules have changed from those that applied to the 2019 IRA season. Knowing the answers could help eligible individuals take advantage of tax-saving opportunities. To that end, we provide some key reminders for 2020 IRA transactions.

1. **2020 IRA Contribution Deadline is April 15, 2021**
   The deadline for making regular contributions to a traditional IRA and/or a Roth IRA is the IRA owner's tax filing due date, which is April 15 for most taxpayers. Extensions do not apply. In response to the coronavirus disease 2019 (COVID-19) pandemic, the deadline for 2019 IRA contributions was postponed to July 15, 2020. But there is no postponement for 2020 IRA contributions which means that the deadline is April 15, 2021.

   Tip: For IRA contributions made in 2021 for 2020, IRA owners must include clear instructions to book and report the amounts as 2020 contributions. This includes contributions made via direct deposits from income tax refunds, for which the instructions must be provided separately. Failure to include such instructions would result in the IRA custodian reporting the amount as a contribution for 2021.

2. **No Age Limit on Traditional IRA Contributions**
   The Setting Every Community Up for Retirement Enhancement (SECURE) Act removed the age 70-½ cap that applied to traditional IRA contributions made for 2019 and earlier. As a result, anyone with eligible compensation may make regular contributions to traditional IRAs for 2020 and after.

   Modified adjusted gross income caps continue to apply to Roth IRA contributions.

3. **QCDs Must Be Offset by Deductible Traditional IRA Contributions**
   Eligible individuals may make qualified charitable distributions (QCD)s from their IRAs. One of the eligibility requirements is that the distribution must occur on or after the date the individual reaches age 70-½. QCDs are tax-free if they meet this and other requirements. *Please contact us if you have questions about the QCD requirements.*

   With the repeal of the age 70-½ limit on traditional IRA contributions, individuals may now make traditional IRA contributions and QCDs for the same year. To prevent a taxpayer from claiming a deduction for a traditional IRA contribution and taking a tax-free QCD at the same time, the SECURE Act requires a QCD to be reduced by tax deducted traditional IRA contributions made for the year the owner was at least age 70-½. This means that any QCD taken in 2020 must be reduced by any traditional IRA contribution made for 2020, if the IRA owner claimed a deduction for that contribution.

For example: Assume that 75-year-old Althea made a deductible traditional IRA contribution of $5,000 for 2020. Assume too that she made a QCD of $20,000 in 2020.

Because Althea was at least age 70 ½ on December 31, 2020, the nontaxable portion of her QCD is reduced by her 2020 $5,000 traditional IRA contribution for which she claimed a deduction. This makes the nontaxable QCD amount $15,000.

Note: Once a QCD is reduced by a contribution amount, that amount is no longer available for reduction of the nontaxable portion of future QCDs. Instead, future QCDs would be reduced only by any additional deductible traditional IRA contributions made in the year of the QCD or earlier year/s in which the IRA owner was at least age 70-½, if the contribution was not already used to reduce or offset the nontaxable portion of a QCD. In short, deductible contributions made when the IRA owner is at least age 70-½ by the end of the IRA contribution year is used to offset the nontaxable portion of a QCD only once.

Claiming Coronavirus-Related Distributions Tax Benefits

Qualified individuals were permitted to take coronavirus-related distributions (CRD)s from their IRAs from January 1st 2020 to December 30th 2020. While CRDs are eligible for three special tax benefits, IRA custodians are not required to perform any special tax reporting to let the IRS or tax-preparer know that the amount is a CRD. IRA owners and their tax professionals will need to ensure that the tax benefits are properly claimed on the IRA owners' tax returns. These benefits are as follows:

- **A waiver of the 10% additional tax (early distribution penalty) on distributions made before the IRA owner reaches age 59-½.** Distributions made from an IRA before the IRA owner reaches age 59-½ are subject to a 10% early distribution penalty unless an exception applies. One of the exceptions is a CRD. Custodians have the option of indicating whether a distribution is a CRD on IRS Form 1099-R - the tax statement used to report distributions from retirement accounts. But many custodians are unable to implement the systematic changes that would report CRDs as distributions that qualify for an exception. This means that the reporting requirement is passed on to the IRA owner's tax preparer.
- **The opportunity to spread the income over three years.** Distributions from IRAs are required to be included in the income of the IRA owner for the year in which the distribution occurred, unless an exception applies. A CRD is one of those exceptions, allowing CRD amounts that are not rolled over to be spread ratably over 2020, 2021 and 2022. The three-year spread is the default option. IRA owners who want to override that and include the entire amount in their 2020 income may do so by making the election on their 2020 tax returns. This election becomes irrevocable once the deadline for filing the individual's 2020 federal tax return- including extensions- has passed.
- **The opportunity to roll over the amount within three years**: Distributions from IRAs are included in the IRA owner's income unless the amount is properly rolled over. One of the requirements that must be met in order for a rollover to be proper is that it must be made within 60 days of the individual receiving the amount. This 60-day deadline is extended to three years for CRDs.

These tax benefits must be claimed on *IRS Form 8915-E, Qualified 2019 Disaster Retirement Plan Distributions and Repayments (Use for Coronavirus-Related Distributions).*

Questions? We can Help

The rules that govern IRAs are complex. But those that apply to transactions that occur in or for 2020 are more nuanced, and mistakes can result in IRA owners missing out on tax benefits. This can be avoided by engaging an advisor who actively keeps abreast of the changes that apply to these rules. Please contact us if you have questions about these and other IRA rules.

Important Disclosure

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