

IRS Clarifies Guidance Regarding Repayment of 2020 Required Minimum Distributions Taken in 2020

Taxpayers are required to take minimum annual distributions, commonly referred to as required minimum distributions (RMDs), from their Individual Retirement Accounts (IRAs) and certain other defined contribution plans (e.g., 401(k), profit sharing, and 403(b) plans) beginning April 1 of the calendar year following the year they turn 72 years of age^[1].

On March 27, 2020, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in response to the public health and economic impact of the COVID-19 pandemic. The CARES Act provides a temporary waiver for RMDs for 2020^[2], pursuant to which taxpayers are not required to take RMDs for 2020. It also allows them 60 days to roll over or return certain RMDs already taken before the CARES Act was enacted.

On June 23, 2020, the Internal Revenue Service (IRS) issued Notice 2020-51 (the Notice)^[3] to provide additional guidance regarding the treatment of RMDs under the CARES Act. The Notice provides that taxpayers have until August 31, 2020^[4], to roll over or repay all 2020 RMDs, including RMDs that were previously treated as ineligible for rollover under the IRS's initial guidance. In addition, 2020 RMD rollovers or repayments will not be treated as a rollover for purposes of the one rollover per 12-month period rule. All taxpayers subject to RMDs qualify for this tax relief, including non-spousal beneficiaries. Returned RMDs must be in the same form and amount as distributed, meaning in-kind RMDs may be returned only by returning the asset that was distributed.

Advice for Taxpayers

Taxpayers who received 2020 RMDs and who wish to make a rollover or repayment should consult with their trusted advisors for possible qualification under the Notice well in advance of August 31, 2020.

Endnotes

[1] In 2019, the required age for RMDs was extended from 70.5 years of age to 72 years of age under the Secure Act.

[2] The waiver does not apply to defined benefit plans.

[3] Not covered in this announcement is additional guidance provided under Notice 2020-51 for plan administrators and a Q&A section. Plan administrators should reference Notice 2020-51 for more information.

[4] Initial IRS guidance provided for a July 15 deadline.

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