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IRS Provides Rollover Relief for Skipped 2020 Required Minimum Distributions

The Internal Revenue Code mandates that individuals receive annual required minimum distributions ("RMDs") from employer tax-qualified retirement plans and IRAs. Until recently, RMDs had to begin by the April 1st following the year in which a person attains age 70½. The Setting Every Community Up for Retirement Enhancement Act of 2019 ("SECURE Act") moved the commencement date back to the April 1st following the year in which the person reaches age 72 for individuals who had not reached age 70½ by January 1, 2020.

As part of Congress' effort to mitigate some of the effects of the coronavirus pandemic, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") waives RMDs for 2020 for all IRAs and for employer retirement plans other than defined benefit plans (such as cash balance plans).

Impact of the CARES Act Waiver on Tax-Free Rollovers

Non-RMD distributions from an employer plan or an IRA may be rolled over tax-free by contributing the amount of the distribution to another employer retirement plan or IRA within 60 days after the distribution. Consistent with the legislative purpose underlying the RMD rules—that is, to limit the ability of an individual to defer the taxation of amounts held in an employer retirement plan or an IRA— RMDs cannot be rolled over.

By waiving RMDs for 2020, the CARES Act transforms what otherwise would have been RMDs into distributions that can be rolled over. But what if more than 60 days prior to March 27, 2020 (the date that the CARES Act was signed into law) someone received an employer plan or IRA distribution that was intended to be an RMD, but turned out not to be?

The IRS to the Rescue

In Notice 2020-51, which was published on June 23, 2020, the IRS extended the 60-day rollover period for all 2020 distributions of RMD amounts until at least August 31, 2020.[1] In addition, the Notice states that a person who, for example, turned age 70½ in 2019 and decided to defer taking their first RMD until 2020, may roll over that distribution and have the benefit of the extension.

A couple of observations regarding the extension of the rollover period:

- The extension is generous in the sense that it applies to any eligible distribution that occurred during 2020 more than 60 days prior to August 31, 2020, which assists not only people who received eligible distributions prior to the passage of the CARES Act, but also helps those who received eligible distributions after that date but failed to make a rollover contribution within the 60-day rollover period. This approach is consistent with other IRS deadline extensions, which recognize the need to assist taxpayers burdened by the pandemic.

- The extension only applies to distributions that, but for the CARES Act waiver, would have been RMDs. This means, for example, that an IRA owner whose 2020 RMD was $40,000, but who opted to take a distribution of $60,000 on January 15, 2020, would only be able to use the extension to do a tax-free rollover of $40,000. In order to have rolled over the extra $20,000, the IRA owner would have had to make a rollover contribution within 60 days after the January 15, 2020 distribution date.[2]

Some Additional Relief

As part of the relief provided by Notice 2020-51, the IRS allows persons who received a payment from an IRA in 2020 that, without the CARES Act waiver would have been an RMD, to repay the distribution to the distributing IRA, even if repayment occurs more than 60 days after date of the distribution, as long as the delayed repayment is made no later than August 31, 2020. The Notice states that repaying the distribution to the distributing IRA will qualify as a tax-free rollover, but the repayment will not be deemed a "rollover" for purposes of the rule that limits the number of rollovers by an IRA owner to one per year or the rule that restricts rollovers of IRA distributions by nonspouse beneficiaries.

RMDs may be in the form of periodic installment payments. The CARES Act waives these RMD payments in 2020. Non-RMD periodic payments, depending on the payment period, are not eligible to be rolled over. Under the IRS Notice, however, RMD amounts received in 2020 in the form of periodic payments may be rolled over, without regard to the payment period. As a result, a person who is beyond their RMD commencement date and is receiving RMDs during 2020 in the form of monthly payments is able to roll over all of those payments (or, more precisely, the portion of each payment that is an RMD) and is able to use the rollover period extension to do so.

A Final Thought

Employer plan participants and IRA owners who received what they thought was a 2020 RMD can either keep the distribution and pay the tax or avail themselves of the CARES Act and Notice 2020-51 relief by rolling over the distribution. If they choose to roll over the distribution to an IRA, there is also a third possibility: because, without the intervention of the CARES Act, the recipient would have had to pay tax on the distribution anyway, they could by paying the same amount of tax convert the amount of the rollover to a Roth IRA. By doing the conversion, they are afforded the opportunity to have the 2020 RMD, plus earnings, paid out tax-free and eliminate the 2020 RMD amount from any future RMD requirements during their lifetime.

For additional information, please contact:

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1. In April, the IRS issued Notice 2020-23, which extended the 60-day rollover period until July 15, 2020 for taxpayers who took employer retirement plan and IRA distributions after January 31, 2020.

2. As mentioned in Endnote 1, if instead of January 15, 2020, the distribution had been made on February 15, 2020, the $20,000 could be rolled over any time up until July 15, 2020. Also, if the distribution qualified as a CARES Act "coronavirus-related distribution," the recipient would have three years to repay the $20,000 (and also, presumably, the $40,000) and avoid the tax on the distribution. See Coronavirus-Related Relief for Retirement Plans and IRAs Questions and Answers, Q&A 7.