ED SLOTT'S

April 2020

IRA ADVISOR

Tax & Estate Planning for Your Retirement Savings

WHAT'S INSIDE?

Government Responds to COVID-19

Federal Tax Filing and IRA Contribution Deadline Extended

On March 20, Treasury Secretary Steven Mnuchin announced the tax-filing deadline for 2019 federal income tax returns has been extended from April 15 to July 15, 2020 (IRS Notice 2020-18). Taxpayers will still need to file state income taxes. State filing and payment deadlines vary and are not always the same as the federal filing deadline. Confirmed by IRS, this extension also postpones the deadline for making 2019 prior-year contributions to traditional and Roth IRAs to July 15, 2020.

Careful monitoring of these contributions is essential. Advisors must be sure that all contributions made after April 15 are clearly designated as tax year 2019 contributions. Advisors should follow up and be sure these prior-year contributions are correctly handled by the IRA custodian.

The CARES Act

On March 27, 2020, President Trump signed into law the massive Coronavirus Aid, Relief, and Economic Security (CARES) Act. This legislation includes a waiver of required minimum distributions (RMDs) for 2020; it applies to company savings plans and IRAs, including both traditional and Roth inherited IRAs.

An RMD waiver is a huge help for clients who would have had to take a 2020 RMD based on much higher account values at December 31, 2019. Now, clients can sit out a year and avoid the tax bill on their 2020 RMDs, if they wish.

The CARES Act impacts 2019 RMDs having a required beginning date of April 1, 2020. Any 2019 RMD amount remaining and not withdrawn by January 1, 2020 is waived.

Another provision of the CARES Act waives the 10% early distribution penalty on up to $100,000 of 2020 distributions from IRAs and plans for affected individuals. The tax would be due but could be spread evenly over 3 years, and the funds could be repaid during those 3 years.

The new law also affects company plan loans taken by affected individuals. First, the law increases the maximum amount of plan loans to the lesser of $100,000 (reduced by other outstanding loans) or 100% of the account balance. (The usual limit is the lesser of $50,000, reduced by other outstanding loans, or 50% of the account balance.) This rule applies to loans taken within 180 days from the bill's date of enactment.

Second, any loan repayments normally due between date of enactment and December 31, 2020 could be suspended for one year. ■