New CARES Act Means Big Changes to Your IRA in 2020

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Just as we were becoming familiar with the sweeping changes to IRAs caused by the SECURE Act (Setting Every Community Up for Retirement Enhancement) which became law in December 2019, another federal law, known as the CARES Act (Coronavirus Aid, Relief and Economic Security Act), enacted on March 27, 2020, changed things again.

THE SECURE ACT

As you may recall, the most sweeping change under SECURE is that most beneficiaries of inherited IRAs can no longer stretch their distributions over their remaining life expectancies but were instead required to withdraw the entirety of the inherited IRA by the 10th anniversary of the IRA owner's death. This 10-year limitation does not apply to surviving spouses, persons less than 10 years younger than the decedent, minor children of the decedent, and chronically ill or disabled beneficiaries who may still draw down over their respective life expectancies. As to all other beneficiaries, there is no required minimum distributions (RMDs) for inherited IRAs, but the entire balance in the account must be completely withdrawn within 10 years to avoid devastating penalties. On the positive side, RMDs for IRA owners now begin at 72 years of age rather than 70 ½, and you may contribute to an IRA regardless of age as long as you have earned income.

THE CARES ACT

As a result of the CARES Act, there are no RMDs for any IRA owner or beneficiary for calendar year 2020, even if the IRA account owner is 72 years of age or older. In fact, if you have already taken your RMD for 2020, you may be able to give it back and avoid the income tax consequence of the withdrawal. Normal RMDs rules return in 2021.

Also in 2020, If you need to take a distribution from your IRA due to hardship created by the Covid-19 virus, you can do so without paying the normal 10% early withdrawal penalty. The withdrawn amount cannot exceed $100,000 and is ratably taxable over the next three years. It can be paid back within the three years without penalty. There are complexities to this, so please contact your tax advisor.

Finally, there is a $300 above-the-line deduction for charitable contributions, even if you do not itemize deductions. There are other important provisions of the CARES Act not mentioned here.

THE BEST NEWS

Nothing in the SECURE or CARES Acts limits your ability to make a 2020 Qualified Charitable Distribution (QCD) to your favorite charity. This income tax favored device permits you to direct up to $100,000 per year from your IRA to a public charity without reporting the distribution as income on your 1040. Because this approved technique lowers your adjusted gross income, it may trigger other income tax savings as well. Making a QCD in 2020, even though there is no RMD for 2020, will reduce your RMD in 2021. When RMDs return in 2021, the QCD will also satisfy your 2021 requirement, providing a win-win for you and your favorite charity.

Also, naming the Catholic Diocese of Cleveland Foundation as the sole or partial death-time beneficiary of your IRA remains a simple way to leave a tax-efficient charitable legacy. You continue to control and enjoy your IRA during your entire lifetime and make a charitable gift at your passing.

FINAL THOUGHT

The coronavirus has and will continue to impact everyone's way of life in many dramatic ways. Congress has reacted to the virus by passing CARES to provide IRA owners and beneficiaries with easier access to their funds during these difficult times. At the same time, the many benefits of naming the Catholic Community Foundation as the lifetime recipient of a Qualified Charitable Distribution or the designated beneficiary of your IRA at death have been preserved. Always contact your tax advisor to see how these ideas might impact your personal situation.

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