MSF CLIENT ALERT

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The CARES Act: Relief for Retirement Plans

The "Coronavirus Aid, Relief, and Economic Security Act" (the "CARES Act") was signed into law on March 27, 2020 and not only provides relief for businesses and taxpayers' lost wages but also impacts individuals' retirement plans for 2020 and beyond.

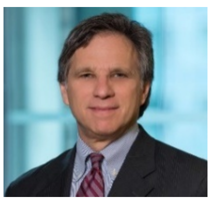
May 11, 2020

As part of the Cares Act, Congress took some of the following measures to ease the burden of rules and penalties surrounding retirement plans:

- The deadline for contributing to a retirement plan for 2019 is extended to July 15, 2020 due to the postponing of the date for filing federal income tax returns to July 15, 2020.
- Required minimum distributions ("RMDs") from IRAs, 401(k)s, 403(b)s and other retirement plans have been suspended for 2020 allowing for income tax deferral until at least 2021. This relief is much needed as RMD amounts in 2020 would have been based on much higher retirement account balances (as of December 31, 2019) and may have forced the selling of assets at lower values now to pay taxes attributable to those substantially higher account balances. The suspension of RMDs also applies to beneficiaries of inherited retirement accounts taking only the yearly required minimum distributions. Lastly, there is no withholding requirements on these early distributions for federal income taxes.
- The Cares Act also provides the ability for individuals to withdraw up to $100,000 in total from retirement accounts without having to pay the 10% penalty if such taxpayer is under age 59 ½.
    - In order to qualify for this relief, a taxpayer must satisfy one of the following requirements:
        - (i) The taxpayer, taxpayer's spouse or dependent is diagnosed with Coronavirus; or
        - (ii) The taxpayer has suffered financial consequences as a result of the pandemic. A financial consequence may include lay-offs, furloughs, reduced incomes, reduced ability to work due to childcare issues, etc.
    - Early withdrawals are still subject to income tax; however, a taxpayer can elect to ratably spread the tax payments out over the next three years. Taxpayers can also "re-contribute" the early withdrawal back into the retirement account over the next three years to avoid some or all of the taxes. These contributions can be made without regard to the normal plan contribution limits.
    - This waiver of the 10% penalty is retroactive to January 1, 2020, so if a taxpayer had taken a distribution which had been subject to the penalty earlier in the year such distribution will now qualify for this waiver.
- The CARES Act also doubles the maximum amount that can be borrowed from a 401(k) account (through the end of 2020) from the lesser of: (i) $50,000; or (ii) 50% of the plan participant's account balance to the lessor of: (i) $100,000; or (ii) 100% of the participant's account balance.
- Consideration should currently be given to converting traditional IRAs into Roth IRAs since the markets have lost substantial value and most retirement accounts have suffered as a result. Upon conversion, the account owner will still be required to pay income tax (if any), however, as markets recovers, the Roth IRA will enjoy tax-free growth and will not pay income tax on future distributions from the Roth IRA.

- The CARES Act suspends the sixty percent adjusted gross income (AGI) limitation for cash contributions to qualified charities. Such contributions are now fully deductible in 2020 and taxpayers can claim a charitable deduction equal to one hundred percent of their AGI.

For more information or if you have any questions about how this new development may affect your business, please contact a member of our Taxation & Estates team.



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