CALAMOS® WEALTH MANAGEMENT

**FROM THE WEALTH STRATEGY GROUP**

# The CARES Act:
## Changes to Retirement Account Distributions and Charitable Deductions

The Coronavirus Aid, Relief and Economic Security Act of 2020 ("CARES Act"), which passed the House on March 27, 2020, and signed into law by President Trump brought the third COVID-19 stimulus package with provisions to offer financial relief to individuals and businesses through direct aid and changes to tax policy.

It is important to review your current tax situation and discuss some strategies with your wealth advisor and your tax and legal advisory team.

In this publication, we outline important provisions pertaining to qualified retirement plans, IRAs and charitable cash contributions. We will cover the key points across three sections.

Section I: Waiving of Required Minimum Distributions (RMDs) for 2020

Section II: Waiving of the 10% penalty for early withdrawals from retirement accounts. Modified provisions for loans from retirement plans for COVID-19-related expenses

Section III: The full deductibility of charitable cash contributions

### SECTION I: Required Minimum Distributions (RMDs) are waived for 2020 and is not limited to participants affected by the coronavirus.

RMDs are the minimum amount taxpayers must withdraw from all their retirement accounts each year annually since retirement accounts cannot be kept indefinitely. Withdrawal amounts can be higher than the Required Minimum Distribution amounts. This withdrawal will be included as taxable income except for any part that was taxed before (basis) or that can be received tax-free (such as qualified distributions from designated Roth Accounts).

**New provisions for RMDs introduced as part of the CARES Act pertain to the following account types and plans:**

» Qualified plans (Defined Contribution plans) including:
- 401(k)
- 403(b) and,
- 457(b) plans (government sponsored)

» Traditional IRA, SEP IRA, SIMPLE IRA, including:
- Inherited IRAs
- Participants whose RMDs began before 2020

**RMD waiver <u>does not</u> apply to defined benefit plans.**

Key provisions of the CARES Act pertaining to RMDs:

1. RMDs taken less than 60 days from March 27, 2020 (the day the CARES Act passed) can be rolled back into the IRA provided that there has not been a previous 60 day rollover within the last year. The IRS issued Notice 2020-23 extending several filing deadlines and it expanded the 60 day rollover rule by allowing distributions made between February 1,2020 and May 15, 2020 to be rolled back into an IRA. Unfortunately those who took RMD distributions before February 1, 2020 will not be allowed to roll back those distributions at this time.

2. The waiver provides additional benefits to first time RMD recipients. Those who turned age 70 1/2 in 2019 and delayed taking their first 2019 RMD distribution by April 1, 2020 will be able to waive RMDs. In addition, their 2020 RMD distribution, required to be taken by the end of 2020, can also be waived.

3. For those non-designated beneficiaries (such us the participant's estate or a charitable organization or trust) who inherited IRA accounts and had to receive distributions within five years after the participant's death, their minimum 2020 distribution is suspended and 2021 will be their first year of distribution for the post-death payout "five-year rule."

4. Distributions required under the new SECURE Act for 10-year post-death payout, is not impacted by the CARES Act waiver. The non-spousal beneficiaries subject to the 10-year payout are not required to take distributions until the year after the year-of-death; thus 2021 is considered year one.

## A Reminder on the Setting Every Community Up for Retirement Enhancement "SECURE" Act signed into law on December 20, 2019

The SECURE Act included provisions that changed RMDs rules for the purpose of helping Americans to save for retirement. It is important to review those changes:

i. RMD's age for retirement accounts increased from 70-1/2 to 72.

ii. Contributions can be made to a traditional IRA past age 70-1/2 as long as the individual is still working.

iii. Eliminated "stretch" distribution rules for those non-spousal beneficiaries inheriting IRA or 401(k) accounts and accelerated distribution within 10 years following the death of the account holder.

**The SECURE Act did not apply to:**

i. Those who turned 70-1/2 during 2019

ii. Those who reached their Required Benefit Date (RBD) before 2019 and are taking RMDs currently, even if they are not 72 yet.

iii. Spouses as beneficiaries of an inherited IRA, Roth or 401(k),

Under the SECURE Act, the IRS will issue updated life expectancy and distribution tables used to calculate required minimum distributions (RMDs), to reflect longer life expectancies. The new tables will allow for lower required distribution amounts since the life expectancy is extended.

## SECTION II:  10% Penalty-Free Distributions from Retirement Accounts

Prior to the CARES Act, distributions from IRAs and qualified plans before reaching age 59-1/2 were considered early distributions, and incurred a penalty of 10% of the taxable amount unless a qualified exception applies such as: payment of medical expenses, health insurance payments if you are unemployed, qualified higher education expenses, first-time home purchases, among others.

Distributions from qualified contribution plans such as 401(k) or 403(b) (not from IRAs)  were allowed before the CARES Act with  certification of a financial need and limited to the lesser of $50,000 or 50% of the vested account balance. Unlike loans, (discussed below) withdrawals are subject to income tax if the participant is younger than 59 ½ plus the 10% early withdrawal applies.

Under the CARES Act, individuals are allowed to make a special kind of distribution from their retirement plans. A "corona virus distribution" (CRD) from a retirement account (401K or IRA) is allowed up to $100,000 in total without having to pay the 10% penalty, even if they are under 59 ½ years old.  The CARES Act also waives the 20% mandatory federal withholding at the time of distribution on retirement accounts.

A CRD is defined as any distribution made on or after January 1, 2020 to December 31, 2020 from a retirement account to a person who has been diagnosed with COVID-19, their spouse or dependent and/or any undiagnosed person experiencing financial consequences due to the corona virus quarantine, furlough, reduction of work hours or were unable to work because of child care responsibilities due to the current crisis. Individuals must self-certify that they qualify for the distributions.

Since CRD Distributions are subject to ordinary income taxes; the Act allows taxpayers to pay taxes on the CRD income over a three-year period (spread evenly) rather than all in the year of distribution. The Act also allows individuals to recontribute the CRD amount within three years of the distribution regardless of that year's contribution limits. The repayments made will retain the characteristic of a tax-qualified contribution (similar to a "rollover).

### Key provisions under the CARES Act to loans* from Qualified Retirement Plans

1. Generally loans taken from qualified plans like 401(a), 401(k) 403(b) and government plans are limited to the lesser of $50,000 or 50% of the participants vested balance and must be paid back within five years.  For tax year 2020, the CARES Act temporarily increases the maximum loan limits to the lesser of $100,000 or 100% of the vested account balance made within 180 days of enactment of the CARES Act.

2. Under the CARES Act retirement loans from a qualified plan will be subject to the employer's plan rules, and are not required to offer COVID-19 related distributions or loan relief under their plans. The loan is a tax-free loan. However it is important to note that a loan can become a taxable distribution if there is a departure from the company before paying the loan back.

3. Loans from qualified retirement plans have to be related to coronavirus expenses and must meet the following eligibility:
    a. You, your spouse or dependent has been diagnosed with the coronavirus
    b. You have experienced adverse financial consequences because you have been quarantined, furloughed, laid off or had work hours reduced due to the coronavirus.
    c. Unable to work because of lack of child care due to the coronavirus.
    d. You have experienced an adverse financial consequence due to other factors as provided by the IRS.

4. An eligible participant will not be subject to the 10% tax penalty for early withdrawal (prior to age 59-1/2) and the 20% federal withholding that normally applies to certain retirement plan distributions.

5. The CARES Act delays the loan repayments for a COVID19- qualified individual with an outstanding loan on or after March 27, 2020 and December 31, 2020 for up to one year; although interest will continue to accrue on these delayed payments.

** IRA's, SEPs and SIMPLE IRAs do not offer loans*

## SECTION III: Increase Deduction for Certain Charitable Contributions

Prior to the CARES Act, the deduction for qualified charitable deductions was limited to 60% of the taxpayer's Adjusted Gross Income (AGI). While most individual taxpayers that do not itemize their deductions do not take a charitable deduction for their charitable donations, under the CARES Act, there is a new "above-the-line" deduction.

1. There is a new deduction line to the calculation of gross income beginning in 2020 for the amount (not to exceed $300) as long as the following qualifications exists:
   a. It is made by an "Eligible Individual" – those who do not elect to itemize the deduction
   b. It meets the criteria for a "Qualified Charitable Contribution," defined as:
      i. A charitable contribution made in cash.
      ii. For which a deduction is allowed
      iii. Made to a charitable organization
      iv. Which is not for the establishment of a new or existing Donor Advised fund.
2. The Act eliminates the cap of 60% of the taxpayer Adjusted Gross Income (AGI) for 2020.
3. A donor can fully deduct gifts equal to 100% of their AGI this year.
4. The increased limits for individuals and taxpayers apply to cash contributions only and limited to gifts to public charities and certain foundations.

## Other Key Provisions

In addition to the above changes, the CARES Act has expanded provisions on Health Savings Account (HSA) distributions by expanding the definition of qualified medical expenses to include over-the-counter items for the purpose of taking a qualified distribution from an HSA and Flexible Spending Account (FSA). Some care services like telehealth and other remote care services can be covered pre-deductible without violations of federal rules for high deductible health plans paired with an HSA (permitted for plan years that begin on or before 12/31/2021).

The Treasury Department and The IRS has extended the deadline for 2019 Federal income tax return filing and payment relief in response to the ongoing Coronavirus Disease 2019 (COVID-19) to July 15, 2020. Last year's IRA and Roth contributions have also been extended to July 15, 2020.

## Conclusion

These changes present unique planning opportunities for all taxpayers. As with any change to your current plan and course of action, it is important to review your current tax situation and discuss some strategies with your wealth advisor and your tax and legal advisory team.



CALAMOS®
WEALTH MANAGEMENT



6957 0420 CWM