



Industry Update:

CARES Act Signed into Law - RMDs Waived for 2020; 10% Early Distribution Penalty Waived Up to Certain Amounts; Plan Loan Rules Relaxed

The “Coronavirus Aid, Relief, and Economic Security Act,” or the “CARES Act,” has passed into law. The legislation includes a waiver of required minimum distributions (RMDs) for 2020. This waiver 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 they can sit out a year and avoid the tax bill on their 2020 RMDs, if they wish.

In addition, the CARES Act impacts 2019 RMDs for those with 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 Any 2019 RMD amount remaining and not withdrawn by January 1, 2020 is waived.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 the 3 years.

Finally, the new law 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.

The information provided here is for general information only and should not be considered an individualized recommendation, personalized investment advice, nor is this intended to be a substitute for specific individualized tax advice. We suggest that you discuss your Specific tax issues with a qualified tax advisor.

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