CARES Act:
IRA Updates and Strategies

To help families and businesses better manage the current financial uncertainty, Congress enacted the **CARES Act** (Coronavirus Aid, Relief and Economic Security Act). The CARES Act includes strengthened unemployment measures, stimulus checks to individuals, new health care funding, plus loans and grants to businesses to help deter layoffs.

In addition to these measures, the CARES Act makes **significant changes to IRA regulations.** These merit strong consideration as you review your financial planning, as they include changes that you might want to use to your advantage in your overall strategy. Note that some of these changes may impact your personal tax return, and some states may handle them differently, so please consult with your tax professional regarding your specific situation.

IRA Contribution Extension

Faced with economic disruptions and rapidly growing unemployment, the Internal Revenue Service (IRS) extended its April 15 tax-filing deadline to July 15 for individual and business 2019 tax returns.

This change also enables you to make **prior-year retirement plan contributions** to an existing Simplified Employee Pension Plan (SEP), Simple IRA, Traditional IRA, Roth IRA or Educational Savings Account IRA. That means more time for you to save retirement dollars – and possibly also reduce your tax bill.

If you don't have an IRA, you can contribute up to $14,000 until July 15th to fully fund a new IRA – with your deposit representing both 2019 and 2020 contributions. Be sure to clearly indicate to your IRA provider that these deposits are for the current year (2020) and prior year (2019) if you choose to take advantage of this opportunity.

Required Minimum Distributions

On the **withdrawal** side, for individuals who normally would need to start taking their Required Minimum Distributions (RMDs) in 2020, this requirement has been waived. This means that if you turned 70 ½ in 2019 and postponed your first RMD until 2020 with the intention of taking it before April 1, 2020, your 2019 RMD is waived.

This waiver is applicable for RMDs from Traditional IRAs as well as designated Simplified Employee Pension Plans (SEP), Simple, Inherited Roth IRAs and Inherited Traditional IRAs as well as 401k, 403b and 457b retirement plans for 2020. It is not applicable to Roth IRAs since they are funded with after-tax dollars and have no RMD requirements.

If you took an IRA distribution according to RMD rules at the beginning of 2020, you can redeposit or roll the distribution funds back into the same or different IRA within 60 days. It is important to understand that your 60-day window starts on the date the distribution is made, not when you receive it, and weekends and holidays are included.

Be aware that any distribution from your IRA and any successive rollovers will need to be reported on your personal tax return for 2020. The distribution will generate a 1099R and the rolled amount will be reported in box 2 of IRS Form 5498, so be on the lookout for these important documents.

It is important to note that there are exceptions to this rollover opportunity. One key exception is that beneficiaries who hold inherited IRAs are not eligible to roll their distributions. Also, if you have taken periodic distributions, only one distribution can be rolled, and you cannot aggregate the total of all the distributions and roll that amount. For example, if you get a monthly distribution from your IRA, you could only roll one month's distribution, and you would not be able to roll the amount you received over two or more months. Finally, if you are taking your RMD as 72(t) payments, this arrangement cannot be changed and the RMD is not waived, even if the RMD calculation method was used.

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First Citizens Wealth Management

Great Opportunity for Roth Conversion

The waiving of RMDs for 2020 presents a tremendous opportunity to convert some or all of your Traditional IRA (pre-tax dollars) to a Roth IRA (funded with after-tax dollars), as you will not have to take the RMD out prior to conversion. You still must pay taxes on the conversion amount, but the RMD would be able to remain in your account and become part of the conversion. It may be also be advantageous to do this conversion prior to turning age 72, since RMDs would still need to be taken out of the account prior to the conversion if you are 72 or older.

If the Coronavirus Strikes

If you or your spouse contracts COVID-19, the CARES Act includes provisions giving you greater access to your retirement savings, regardless of your age.

To qualify for this treatment, you must meet one of the following criteria:

- **Be diagnosed** with COVID-19 by a test approved by the Center for Disease Control (the same holds true for your spouse, child or relative dependent on you for half of their support)
- Experience **adverse financial consequences** resulting from being quarantined, furloughed, laid off, or lost work hours due to COVID-19
- Be **unable to work** due to lack of childcare related to COVID-19, and experience adverse financial consequences as a result
- Own or operate a **business that closed** or reduced operating hours due to COVID-19 (to be determined by future IRS guidance)

If you meet one of these requirements, you could withdraw up to $100,000 after January 1, 2020, with no limitations on your use of the funds, and the CARES Act waives the 10% early-withdrawal penalty on this distribution for anyone age 59 ½ or younger. You can also "repay" the funds back to the same or another IRA over three years, making the transaction tax-free. If you can't repay the distribution to the IRA of your choice, you can spread the taxability of the distribution over three years.

Dealing with the Unknown

Doubt and uncertainty – especially concerning your health and money – make tough decisions even harder. If you have any questions on these changes and how they might benefit you, contact your First Citizens relationship manager today.