# Retirement Plan Benefits: The CARES Act and Other Tax Planning Considerations

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**2020 Required Minimum Distributions From Retirement Accounts Waived under CARES Act**

The $2 trillion stimulus package known as the Coronavirus Aid, Relief, and Economic Security (CARES) Act (the "Act") has been approved by Congress and signed into law by President Trump. The Act includes provisions that will provide some flexibility for individuals related to retirement accounts.

Under current law, individuals are required to withdraw minimum distributions ("RMDs") from certain retirement accounts including IRAs and qualified retirement plans such as 401(k)s, 403(b)s, and government-sponsored 457(b)s each year beginning at age 72 (or 70 ½ for individuals born prior to July 1, 1949). The Act waives this RMD requirement for 2020. This is particularly important given that RMDs for 2020 are calculated based on account balances as of December 31, 2019, when the market was at or near record highs. The Act will allow individuals to avoid the financial hardship of recent market losses combined with RMD withdrawals calculated as of the recent market highs.

Some individuals may, however, find now a good time to take RMDs despite this waiver, as some may need these RMDs to supplement losses of income from other sources or may find themselves in lower income tax brackets than prior years, in which case taking an RMD for 2020 may make financial sense. The Act gives individuals flexibility to do this planning.

With the normal April 1st deadline for the first required RMDs for those who turned 70 ½ last year, the legislation is particularly time sensitive. Individuals who turned 70 ½ in 2019 and who did not take their initial RMD in 2019 will now not be required to take their initial RMD by the April 1, 2020 deadline or their regular 2020 RMD. However, individuals who turned 70 ½ in 2019 and who took their initial RMD in 2019 cannot reverse the distribution. For those individuals, only their regular 2020 RMDs will be waived.

In addition to the waiver of 2020 RMDs, the Act includes additional flexibility for those impacted by COVID-19 or the related financial fallout who need to use funds from their retirement accounts to cover costs. These benefits include increased limits on loans from 401(k), 403(b) and government 457(b) plans, deferred repayments on loans from such plans, loosened restrictions related to so-called "hardship withdrawals" from retirement accounts, and the waiver of early withdrawal penalties for certain withdrawals from such plans.

**Other Tax Planning Considerations for Retirement Accounts**
As many are aware, when an account holder withdraws funds from a traditional IRA, the funds withdrawn are subject to income tax in that year. When an account holder converts a traditional IRA to a ROTH IRA, tax becomes due on the value of the assets subject to the conversion and no additional tax is due later when the funds are withdrawn. While the funds remain in the ROTH, they continue to grow tax free.

So the question becomes - when should you convert? The conditions that make a conversion a good strategy include a lower income year or a down market. For many people, 2020 may be an ideal time to consider this income tax planning strategy. You may find yourself in a lower income tax bracket this year and pay a lower tax than you would expect, even in retirement. In light of what is currently happening, we are going to explore the benefit of a conversion in a down market. Let's assume you had one share of stock in Disney in your traditional IRA. Disney had been selling at $140 per share; and let's assume at the time you consider a conversion it is selling for $80 per share. Let's also assume that you think Disney will rebound back to $140 and beyond. If you transfer that share of Disney stock to a ROTH IRA, you will pay tax on the $80 value. When the stock rebounds, the value of your ROTH IRA will be $140 but you paid tax on just $80. You will never pay tax on the growth between $80 and $140 because withdrawals from a ROTH IRA are not subject to income tax. Not bad, right? There is one catch; you have to pay the tax on the $80 conversion, so you do need funds available for that tax payment by April 15, 2021. Those who have the liquidity to make these tax payments, can take advantage of the ultimate tax savings.

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