

# Steven Roy Management

## Cambyes Financial Advisors, LLC

### Required Minimum Distributions Early Distributions and Plan Loans Summary of 2020 Provisions

Cambyes Financial Advisors, LLC  
Steven Roy Management  
13027 Victory Blvd. PMB 722  
North Hollywood, CA 91606  
[WWW.StevenRoyManagement.Com](http://WWW.StevenRoyManagement.Com)

[o] (818) 489-4228  
[f] (818) 450-0426

[Steven@StevenRoyManagement.Com](mailto:Steven@StevenRoyManagement.Com)  
[Telephone] (818) 489-4228  
[Fax] (818) 450-0426

Reviewed and Drafted By:

- Nastaran Motiei MBA (Managing Member)
- Steven J Roy MS, MST, EA (Managing Member)

Revised: 08/2020

## Disclaimers and Disclosures

The information contained in this publication has been gathered from sources that are believed to be reliable but is not guaranteed as to completeness, currency, or accuracy.

Nothing contained in this publication should be construed as the giving of business, legal or tax advice or the making of a recommendation. It should not be relied on as the basis for any decision or action. The information contained in this document is general in nature and may not apply to the specifics of your situation or transaction. You must rely only on the advice of qualified tax and/or legal counsel to advise you on your specific situation or transaction.

Steven Roy Management, the authors, or their affiliates do not represent or warrant that this information, including any third-party information, is accurate, current, or complete and the information should not be relied on as such.

The data and analysis contained in this publication are provided "as is" and without warranty of any kind, either expressed or implied as to its accuracy, completeness, timeliness, originality, merchantability, fitness for a particular purpose and/or non-infringement. Neither Steven Roy Management, the authors, nor their affiliates, employees, nor any third-party provider, shall have any liability for any loss sustained by anyone who has relied on the information contained in any publication produced by them.

In no event, shall Steven Roy Management, the authors, nor their affiliates have any liability for any direct, indirect, special, incidental, punitive, consequential (including without limitation, lost profits) or other damages. Nothing contained in this document is intended to create a contract (express or implied), or any other legal right or remedy or otherwise to create legally enforceable obligations on the part of Steven Roy Management, the authors, or their affiliates.

All opinions expressed are subject to change without notice.

### **IRS Circular 230 Disclosure**

In order to comply with requirements imposed by the Internal Revenue Service, we inform you that any U.S. tax advice contained in this communication (including any attachments) is not intended to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein.

## Required Minimum Distributions (RMDs) are Not Required in 2020

In any “normal year” once you have reached a threshold age (70 ½ or 72, depending on when you were born)<sup>1</sup> you must distribute “Required Minimum Distributions” (RMDs) from most of your retirement accounts.

The CARES Act suspends the RMD requirement for 2020.

RMD Relief applies to all of the plans that usually require RMDs:

- Traditional IRAs
- SEP IRAs
- SIMPLE IRAs
- 401(k) plans
- 403(b) plans
- 457(b) plans
- Profit Sharing Plans, and
- Other Defined Contribution Plans

RMD Relief applies to both those retirement accounts you (or your employer) funded, and those you inherited.

When CARES was enacted, the stock market was wallowing in a deep trough (having dropped nearly 35% in 31 days). RMD Relief allowed plan beneficiaries to avoid liquidating positions that were deep in the red – thus reducing depletion of the retirement account and allowing time for the market to recover. (The market has since, rallied impressively – returning to about 90-100% of its pre-coronavirus high water mark.)

Deferring your RMD also saves a small amount of (discounted) income tax and allows the deferred funds to grow tax free. Given the present low interest rate environment, that deferral isn’t worth much – about \$99 for a \$10,000 Required Distribution<sup>2</sup>... but in retirement accounts, every penny counts.<sup>3</sup>

---

<sup>1</sup> If your 70<sup>th</sup> birthday falls before July 1, 2019, you must begin making RMD distributions when you reach 70 1/2. The Setting Every Community Up for Retirement Enhancement (SECURE) Act (part of the Further Consolidated Appropriations Act, 2020, P.L. 116-94,) alters the requirement: if your 70th birthday is July 1, 2019 or later, you do not have to take withdrawals until you reach age 72. Both the old and the new provisions allow you to defer the first RMD until April 1 of the calendar year after you reach the age threshold (IRAs including SEPs and SIMPLE IRAs) or the later of April 1 of the calendar year after you reach the age threshold or the year you retire (401(k), profit-sharing, 403(b), or other defined contribution plan). If you own more than 5% of the business that sponsors the plan, then you must begin receiving distributions by April 1 of the year after the calendar year in which you reach age 70½ (age 72 if born after June 30, 1949), even if you have not retired.

<sup>2</sup> The value of tax deferral is calculated (to a first approximation) as the  $\{[(\text{Required Distribution} \times \text{The Beneficiary's Marginal Tax Rate}) \div (1 - \text{the Risk Free Discount Rate})] - \text{Required Distribution}\}$ . In our example (and our extremely low interest rate environment), a taxpayer in the 25% Federal tax and 7% State tax brackets would calculate the value of deferral as  $\{[(10,000 \times 0.32) \div (1 - .03)] - 10,000\} = \sim 99$ .

<sup>3</sup> If you are not an “Eligible Designated Beneficiary” of an inherited IRA (and thus required to use either the 5-year or 10-year rules), tax deferral may have more significance (Because your usual RMD may be proportionately much larger).

CARES adds another wrinkle to this provision – but its utility has waned for now. If you took a Required Minimum Distribution before CARES was passed in March or in the period before April 1, you had until July 15 to rollover the distribution into another exempt account – effectively erasing the transaction ([Notice 2020-51](#)). As it is now July 26<sup>th</sup>, the rule has evolved: If you take an RMD and later decide you don't need it – you can roll it over into another exempt account any time within 60 days after the distribution. This may be beneficial if you encounter a short-term cash shortage you believe will be remedied within 60 days.

Tax Deferral is a lovely thing – Deferral comes at the price of impaired liquidity in your non-exempt accounts.

- If the RMD is not critically necessary to maintain your standard of living, you do not need the funds, or you can withdraw the necessary funds from another account, like a taxable account, then by-all-means defer your RMD.
- If not taking the RMD means sacrificing necessities such as food, medicine, or shelter – or just making that an uncomfortable pinch. Think twice before you defer the RMD (or revisit the question repeatedly between now and December and feel free to change your mind). Your life and comfort are not worth a 0.99% tax advantage – next year.

---

Eligible designated beneficiaries include a surviving spouse, a minor child of the deceased owner, disabled or chronically ill individual or any other person who is not more than 10 years younger than the deceased account holder. Eligible designated beneficiaries have the option to take Required Minimum Distributions based on their life expectancy.

A minor child of the deceased owner can use the life expectancy calculation until the child reaches the age of majority (as defined by their state of residence), at which point, assets in the inherited IRA must be fully withdrawn within 10 years of the minor child reaching the age of majority.

## Retirement Plan Withdrawals, Distributions, and Loans

CARES allows “Qualified Individuals” to withdraw up to \$100,000 from their retirement plan, regardless of their age, without incurring the Sec. 72(t) 10% additional tax for early distributions (or the Sec. 72(t)(6) 25% additional tax for SIMPLE IRAs). If you qualify, you may take the distribution at any time before December 31, 2020.

The Act also increases the permissible plan loan amount under IRC Sec. 72(p) from \$50,000 to \$100,000 for Qualified Individuals.

Both the distributions and the loans receive favorable tax treatment under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136.

As you probably suspect, there are some caveats, conditions, and opportunities:

- The definition of “Qualifying Individual” for both distributions and loans is broad – essentially including anyone who
  - Was diagnosed positive for either SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by an approved test, or
  - Whose spouse or dependent who was diagnosed positive for either SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by an approved test, or
  - Who “experiences financial consequences as a result of one or more “coronavirus catastrophes”<sup>i</sup>
- Notice ([Notice 2020-50](#)) provides guidance on how plans may report coronavirus-related distributions and how individuals and plans report distributions on their individual federal income tax returns.
  - Distributions are includible in income over a three-year period. To the extent the distribution is eligible for tax-free rollover treatment and is contributed to an eligible retirement plan within the three-year period, it will not be includible in income. You may also elect to include the entire distribution in income in the year of distribution by making an irrevocable election in your tax return for the year of distribution
  - Loans may be repaid over up to three years. Similar to distributions the loan may be rolled over into an eligible retirement plan and it will not be included in your taxable income. Any unrepaid loan amount will be deemed income and subject to the usual tax exposures. (The literal language of the act implies it “will be taxed over three years,” but it is as yet unclear how that tax would be determined. If you have an existing plan loan, payments on that loan may be suspended for up to one year.

It is tempting to take tax deferred and penalty free distributions and loans on the Edmund Hillary principle: “Because they are there.” However, doing so may impair your wealth building strategy both now and ultimately in retirement.

This leads to a simple decision rule:

- If you don’t need the money, don’t do the distribution or loan.
- If you really need the money (not want, need) – can you get it somewhere else?

That simple rule has been the foundation of retirement planning for decades. It remains true even in the midst of a plague.

Sources of this chaos: Relief from some of it (maybe)

*CARES Act, [H.R. 748](#), P.L. 116-136. (Personal Provisions)*

### **Minimum Required Distributions Deferred**

- Pre-CARES Rules
  - IRS Website: [Retirement Plan and IRA Required Minimum Distributions FAQs](#)
  - Regulations: [26 CFR § 1.401\(a\)\(9\)-6 - Required minimum distributions for defined benefit plans and annuity contracts](#)
  - FINRA Website: [Required Minimum Distributions—Common Questions About IRA Accounts](#)
- CARES Provisions
  - IRS Rulings: [Notice 2020-51 \(PDF\)](#)
  - IRS Website: [IRS announces rollover relief for required minimum distributions from retirement accounts that were waived under the CARES Act](#)

### **Penalty Free (and Expanded) Retirement Plan Distributions and Loans**

- CARES Provisions
  - Guidance for Coronavirus-Related Distributions and Loans from Retirement Plans Under the CARES Act ([IRS Notice 2020-50](#))
  - IRS Website: [Coronavirus-related relief for retirement plans and IRAs questions and answers](#)
  - FINRA Website: [CARES Act 2020: Retirement Fund Access and Student Loan Relief](#)

## End Notes

The notes in this presentation are intended to assist tax and financial professionals and ardent do-it-yourselfers. The notes offer a deeper analysis of issues than is commonly appropriate to a seminar presentation designed to familiarize non-professionals with the issues and rules they may confront. Please note that these Endnotes are, for the most part, extracted without editing from relevant source documents. Please do not judge Steven Roy Management's ability to articulate clear thoughts based on this part of our presentation.

---

<sup>i</sup> The act initially identified three catastrophes

- The individual's being quarantined, being furloughed or laid off, or having work hours reduced due to COVID-19;
- The individual's being unable to work due to lack of child care due to COVID-19; or
- The closing or reducing hours of a business owned or operated by the individual due to COVID-19.

The service later identified several others: encompassing anyone who suffer adverse financial consequences as a result of:

- Having a reduction in pay (or self-employment income) due to COVID-19 or having a job offer rescinded or the start date for a job delayed due to COVID-19;
- The individual's spouse or a member of the individual's household (as defined below) being quarantined, being furloughed or laid off, or having work hours reduced due to COVID-19, being unable to work due to lack of child care due to COVID-19, having a reduction in pay (or self-employment income) due to COVID-19, or having a job offer rescinded or the start date for a job delayed due to COVID-19; or
- Closing or reducing hours of a business owned or operated by the individual's spouse or a member of the individual's household due to COVID-19.

A "member of the individual's household" is someone who shares the individual's principal residence.