BUSINESS FOCUS:

Retirement accounts: recent changes and the best ways to adjust your strategies

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Normally people who have Individual Retirement Accounts (IRAs) must take a required minimum distribution (RMD) beginning when they are age 70½. The SECURE and CARES Acts adopted by Congress this year changed that requirement in a couple of significant ways. First, account owners of IRAs now have until the age of 72 to start required distributions. Second, the Act eliminated the requirement of taking a minimum distribution for the year 2020 regardless of your age. Moreover, the waiver of your 2020 minimum distributions covers both IRA account owners and the beneficiaries of inherited IRAs.

Should I still take a required minimum distribution?

When you take funds from an IRA, the distribution is subject to taxation at your ordinary income tax rate. If you were to leave these funds in the IRA instead, they would continue to grow tax deferred. As a result, it is generally better to leave the funds in your IRA and use other types of accounts if you need money. However, there are exceptions to this rule:

- First, you may need the funds for living expenses. If you have other sources of income, you might be able to rely on these more heavily and at least reduce the amount being withdrawn from your IRA this year. If you have some cash in a savings account, now might be the time to tap into it. Alternatively, if your other sources of income include appreciated stock, you will need to weigh the cost of paying capital gains at a tax rate of 15-20% versus withdrawing from your IRA at your marginal income tax rate.
- Second, you or your CPA may decide it is better to take a partial distribution this year if you are trying to smooth out your income each year and the RMD withdrawal would not push you into a higher tax bracket.
- Third, if you have been using your RMD for charitable giving (i.e. a qualified charitable distribution), you or your financial advisor will need to evaluate your options. While it is generally better to use RMD for charitable giving because you save more in taxes, this year you have the option of keeping those funds invested in your IRA to continue to grow tax deferred. Instead, you could use cash or appreciated stock. However, whether this is a better strategy for gifting will depend on several factors. You or your financial advisor should consider the relative value of the stock market at the time of the gift, the amounts of charitable deductions available for appreciated stock versus other types of assets, and the impact of the charitable giving on any existing plans to fund cash flow needs.

What if I've already taken my RMD this year?

The CARES ACT also expended the ability to rollover or pay back distributions already taken from an IRA. Normally, an IRA owner or beneficiary has 60 days to rollover or to return a prior distribution made to them back into the distributing IRA, and they can do this only once every 12 months. While these rules are still in effect, the CARES ACT has given IRA owners and beneficiaries extra benefits: a recipient of an IRA RMD distribution made in 2020 is now allowed to repay the amount to their IRA at any time so long as it gets into the account by August 31, 2020. Moreover, if you received multiple RMD distributions, you may make multiple rollovers because the IRS is no longer counting rollovers of 2020 RMD made by August 31, 2020 in the only one rollover per 12 months rule.

These changes give IRA owners greater flexibility in managing their repayments. For example, if you take an RMD distribution from you IRA in July or August, you have until the later of August 31 or 60 days to get the rollover repayment into your account, but if you get it in by August 31, it should not count toward the only one rollover every 12 months rule.

[When dealing with IRS rules and regulations that impact your tax situation, you should consult your attorney or tax advisor.]

Valerie Nevel

Valerie Nevel joined Ledyard Financial Advisors in September of 1998 and has more than 30 years of experience in taxation, banking and wealth management services. Valerie has worked in the area of taxation for the MA Department of Revenue and Coopers and Lybrand. She was in-house legal counsel to the Trust Division of State Street Bank and Trust Company. Prior to joining Ledyard, Valerie had a legal practice in which she focused on estate planning, taxation, trusts and charitable organizations.

Valerie graduated from Boston University Magna Cum Laude with a Bachelor of Science Degree in Economics in 1986. In 1991, she graduated from Boston College Law School with a Juris Doctor Degree, and in 1992, she graduated from Boston College Carrol School of Management with a degree in Business Administration. Valerie is an active member of the New Hampshire Bar Association and is currently the Immediate Past President of the New Hampshire Estate Planning Council.

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