STRATA TRUST COMPANY

THE CARES ACT

How the CARES Act affects your taxes and retirement savings

Just as we were all getting used to the SECURE Act rule changes, the rules changed again. After a few quiet years on the legislative front, two major bills affecting retirement savings have been passed in the first part of the year. The latest change comes with the Coronavirus Aid, Relief and Economic Security (CARES) Act.

This $2.2 trillion relief package provides aid to businesses, hospitals, airlines, students, workers and taxpayers trying to manage life and finances amid the economic and healthcare emergencies caused by the COVID-19 outbreak.

THE CARES ACT

As the U.S. government moves quickly to respond to the ongoing Coronavirus pandemic, there is some relief for taxpayers. The CARES Act includes several elements aimed at helping keep people engaged in the economy. That means direct cash for many, plus expanded unemployment benefits and new rules for things like filing your taxes and making retirement contributions.

The following information explains how the CARES Act affects your retirement accounts. These changes present the opportunity to revisit your existing retirement investing and savings strategies with your financial advisor.

TAX FILING AND IRA CONTRIBUTION DEADLINE EXTENDED

In March, Treasury Secretary Steven Mnuchin announced an extension of the 2019 tax filing deadline, shifting the normal April 15 deadline to a July 15, 2020 deadline.

The change affords taxpayers a slight reprieve and provides an added benefit to investors contributing to Traditional IRAs and Roth IRAs, as the contribution deadline is automatically pushed back to coincide with the filing deadline. Regarded as an atypical move in response to the economic impact of the COVID-19 crisis, the change presents real benefit to IRA account holders. Most notably, they have additional time to contribute to their IRA and save toward retirement.

While the change offers additional leverage to put retirement dollars to work, it could also introduce administrative challenges, as institutions employ standard procedures with assigning post-April 15 contributions to the next tax year. Following the standard April 15 deadline, investors must be proactive and diligent in instructing their IRA custodian whether to apply contributions to the 2019 or 2020 tax year.

To learn more about Traditional IRA and Roth IRA contribution limits for 2019, check out [IRA Contribution Limits](). This article offers easy-to-reference charts highlighting contribution limits for 2018-2020.

REQUIRED MINIMUM DISTRIBUTIONS

The CARES Act waives required minimum distributions (RMDs) that are required to be paid in 2020 from IRAs, 401(k) plans, 403(b) plans, and governmental 457(b) plans, so that retirees are not forced to liquidate their investments and lock in recent market losses.

HERE'S WHAT YOU NEED TO KNOW IF YOU'RE OVER AGE 70 AND WERE TAKING RMDS PRIOR TO DEC 31, 2019, OR HAVE AN INHERITED IRA

- If you are required to take an RMD from your IRA in 2020, you do not have to take that RMD in 2020.
- If you were required to take your first RMD for 2019, but you were waiting until the deadline of April 1, 2020 to take that RMD, you do not have to take that 2019 RMD or your 2020 RMD.
- If you already took a 2019 or 2020 RMD in 2020, you may roll it back into your IRA within 60 days from when you received the distribution.
- If you took your 2019 RMD in 2019, the waiver does not apply to that RMD.

CHANGES TO RMDS UNDER THE SECURE ACT

The amount to distribute as an RMD each year is calculated based on the value of the IRA at the end of the prior year. Investment values have dropped significantly from the market high at the end of 2019. Waiving RMDs in 2020 ensures that no one is forced to take an RMD amount based on an account value that is no longer there or to liquidate investments at today's lower value. By waiting to take distributions until 2021, those who would have been required to take an RMD in 2020 avoid a tax hit on the amount distributed and may see their investments recoup some value.

With the SECURE Act changes published just days before taking effect, it was already confusing as to who had to take an RMD in 2020. The waiver for 2020, at the very least, gives the industry time to adjust to the change in the RMD starting year

IF YOU STILL WANT TO TAKE A DISTRIBUTION

Many retirees depend on their RMDs for their retirement income. Foregoing a distribution this year may not be an option for them. Nothing in the CARES Act prevents you from taking distributions from your IRA whenever you choose. If you need to take money out of your IRA in 2020, you may be in a lower tax bracket this year and your tax bill will not be as high on your distribution.

YOU MAY WANT TO CONSIDER CONVERTING TO A ROTH IRA

If you don't need the money just yet, you may want to consider converting some of your Traditional, SEP or SIMPLE IRA assets to a Roth IRA. You will only owe tax on the dollar amount you choose to convert. With the lower investment values right now, however, you may be able to convert more shares of an investment for the same dollar amount. Any future gain in the value of the investments you converted will be tax-free when you take it out of your Roth IRA (provided you have had a Roth IRA for at least five years). Investors should seek financial advice before requesting a conversion to review how the transaction will affect your tax liability and investment strategy.

CORONAVIRUS-RELATED DISTRIBUTIONS: DO YOU QUALIFY?

The CARES Act legislation, in part, grants a provision allowing retirement savers to access their IRA and qualified retirement plan assets (e.g., 401(k) plans, 403(a) plans, governmental 403(b) plans, and Traditional IRAs) via a coronavirus-related distribution (CRD). Such distributions typically would be inaccessible or subject to early withdrawal penalties.

ELIGIBILITY FOR CORONAVIRUS-RELATED DISTRIBUTIONS

Individuals may withdraw up to $100,000 in aggregate from eligible retirement plans without paying the 10% early distribution penalty tax (that generally applies to early distributions for individuals under 59½ years old).

A CRD is defined as a distribution made during the 2020 calendar year to a qualified individual, defined as:

- an individual who is diagnosed with the coronavirus in an approved test
- the spouse or dependent of an individual who is diagnosed with the coronavirus in an approved test; or
- an individual who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of child care due to such virus or disease, closing or reduced hours of a business owned or operated by the individual due to such virus or disease, or other factors as determined by the Treasury Secretary.

Eligible employees are required to sign a certification of the reason for the CRD, but employers are not required to verify such certifications.

ADDITIONAL CRD CLARIFICATION

Additionally, the act provides clarification on the following:

- CRDs will meet the retirement plan distribution requirements, as long as all distributions from one employer do not exceed $100,000.
- Individuals may repay CRDs over three years beginning with the day following the day a CRD is made without having the amount recognized as income for tax purposes.
- Repayments may be made to an eligible retirement plan or IRA.
- CRD repayments made within the three-year period will be treated as having satisfied the general 60-day rollover requirement.
- CRDs will be taxed ratably over a three-year period unless an individual chooses otherwise.
- Although CRDs may be rolled over, they are not considered “eligible rollover distributions” for certain purposes. Employers are not required to offer a direct rollover option.
- CRDs are exempt from the 20% mandatory withholding that normally applies to certain retirement plan distributions. Employers are also not required to provide a 402(f) notice.

CONSULT WITH YOUR TAX ADVISOR

For many Americans, the economic impacts of the coronavirus pandemic are forcing them to make tough financial decisions but accessing funds set aside for retirement can have significant impacts on your long-term financial goals. If you are considering taking a CRD, first consult with your tax advisor to safeguard your short-term and long-term financial health.

IRS FORM 5498: WHAT IT IS AND WHAT THE IRS EXTENSION MEANS FOR YOUR IRA

IRA custodians must track all IRA contributions made throughout the year and generate IRS Form 5498, IRA Contribution Information, for each IRA to report contribution activity and the fair market value for the entire IRA and for certain types of alternative investments held within the IRA.

Form 5498 is an important record of your IRA contributions that you should retain with your financial files. It is not a form that is filed with your tax return each year or that you must present to your tax preparer. Typically, your IRA custodian will send a copy to you and to the IRS by May 31 each year to report activity for the prior year. Due to the 2020 Coronavirus pandemic, the deadline for filing tax returns and making IRA contributions has been extended to July 15, 2020; consequently, the custodial reporting deadline has also been extended to August 31, 2020.

In many cases, you will have already filed your tax return. The IRS receives Forms 5498 by the custodial reporting deadline and may use these forms to crosscheck against the IRA contributions reported on individual federal tax returns. For example, if you claimed on your tax return that an IRA distribution was not taxable because you rolled it over to another IRA within 60 days, the IRS should have a Form 5498 for the IRA receiving the rollover reporting the amount that you rolled over.

When you receive your Form 5498 from your IRA custodian, do two things:.

1. Carefully review the information and dollar amounts to make sure they match what you entered on your tax return. Discrepancies could trigger an audit. Contact your IRA custodian if you have a question or believe there is an error on your Form 5498. If there is an error, your IRA custodian will issue a corrected Form to both you and the IRS.

2. Store your Form 5498 with your financial files to maintain a record of your IRA contributions.

WHY YOU MIGHT RECEIVE YOUR FORM 5498 EARLY

IRA custodians may use Form 5498 to satisfy the fair market value statement or the required minimum distribution (RMD) notice requirement. If you receive your Form 5498 early in the year, no further action is necessary on your part unless you believe there is an error on your Form, or you make an IRA contribution for 2019 between January 1, 2020, and July 15, 2020. In this case, your IRA custodian will issue an updated Form 5498.

Because of the rapidly changing circumstances caused by the coronavirus pandemic, the CARES Act legislation may be amended periodically.

Check back with STRATA Trust Company for new and revised information by visiting our *STRATA Insights*.

A VISION FOR YOUR FUTURE

For more than a decade, STRATA Trust Company has helped thousands of investors and investment professionals hold self-directed retirement accounts in a wide range of alternative investments. We've built our reputation by delivering streamlined and straightforward custody, serviced by a team that is always available to help and well-versed in regulatory requirements.

THE CLEAR DIFFERENCE

STABILITY
$2+ billion assets under custody, 35k+ accounts and over 10 years operating with direct oversight by the Texas Department of Banking.

COMMUNICATION
Prompt and accurate communication on transaction status, statement updates and investment requests.

SPEED
Streamlined processes and digital documentation and signing to facilitate speedy transactions and transfer of assets.

TECHNOLOGY
Secure and easy-to-use technology for straightforward account management, documents, tax statements and notifications.

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