The Foundation of the GREATER MIAMI JEWISH FEDERATION

CARES Act: 2020 Required Minimum Distributions Waiver and Charitable Giving Modifications

Congress has waived required minimum distributions (RMDs) for 2020 from qualified retirement plans and IRA accounts. This important change is contained in the CARES Act that became law in March. In addition, the relief legislation contained two modifications to the charitable contribution deduction for the current year. The charitable deduction provisions and their interaction with the RMD waiver are discussed below.

The 2020 RMD waiver may provide time for account balances of IRAs and qualified retirement plans to rebound from the precipitous decline in the stock market during the first quarter of the year. Because RMDs are based on the account value as of December 31, many retirees would have been required to withdraw a much larger portion of their current account balances in 2020 than anticipated absent the waiver. In some cases, sales of assets at a loss may have been needed to fund distributions if there had been no waiver.

2020 RMD Changes

Anyone with an RMD due in 2020 from an IRA or qualified retirement plan can take advantage of the waiver. This includes those who turned age 70½ in 2019 and were permitted to defer taking their first RMD until April 1, 2020. It is important to note that the RMD is a *minimum* required distribution. Even though RMDs are waived this year, any amount can be withdrawn to meet needs. Amounts withdrawn, however, will be taxable. The RMD waiver puts control back in the hands of the account holder to withdraw or not, depending on individual circumstances. The IRS estimates that almost 80 percent of account owners withdraw more than their RMD each year.

The CARES Act was enacted March 27, 2020, after some individuals already had taken their 2020 RMDs. These distributions may be eligible for a tax-free rollover to a plan that accepts rollover contributions, such as a new IRA. Under guidance issued by the IRS, withdrawals taken from February 1 to May 15, 2020 must be rolled over by July 15, 2020. Withdrawals that occurred prior to February 1, 2020, may not be rolled over because the 60-day tax-free rollover deadline expired prior to April 1, 2020. *Note: Attention needs to be paid to the technical rules governing rollovers.*

Keep in mind that under the 2019 SECURE Act people that reach age 70½ in 2020 and subsequent years will not have to take RMDs until the year they reach age 72. The SECURE Act, however, *did not change the age at which IRA owners become eligible to make Qualified Charitable Distributions (QCDs)*. QCDs of up to $100,000 a year can still be made by those who are 70½ or older without incurring any tax. Remember that QCDs must be paid directly from the IRA to a qualified charity. They may not be placed in donor-advised funds, distributed to supporting organizations or private foundations or used to establish split-interest gifts, such as charitable gift annuities.

- *Note: QCDs can be made only from IRAs, not from other retirement plans.*

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RMDs and Other Tax Planning Considerations

Those with significant balances in their IRAs will want to consider a number of factors in deciding whether to make QCDs in 2020 or defer QCDs until 2021, when QCDs will have the effect of reducing taxable income. Among the factors are:

1. Those who are very charitably inclined, especially those who have used QCDs in the past few years, may wish to continue to make QCDs in 2020 despite the RMD waiver. QCDs are excluded from income and thus will not impact adjusted gross income (AGI)-based premiums, such as Medicare Part B and Medicare Part D or AGI-based limits on itemized deductions*. Note: State income tax considerations could impact the QCD decision, particularly in any state in which QCDs are included in taxable income.*

2. QCDs may remain attractive to non-itemizers who derive no tax advantage from itemized charitable contribution deductions. Indeed, for many over age 70½ who do not claim itemized deductions on their tax returns due to the large increase in the standard deduction contained in the 2017 Tax Cuts and Jobs Act, QCDs have become increasingly more valuable.
    - *Note*: *The CARES Act does provide a limited $300 cash-only above-the-line charitable deduction for 2020 per tax return. There is only a single $300 deduction for joint filers. It is available only to non-itemizers. The $300 cash contribution may not be claimed for gifts to donor-advised funds or supporting organizations.*

3. Another strategy could be for IRA owners to withdraw significant amounts from their IRAs to make “non-QCD” cash contributions, thus generating charitable contribution deductions to offset the taxable income that would be generated. In 2020, *cash* contributions can be deducted up to 100 percent of adjusted gross income. These large cash contributions could be used to fund donor-advised funds or supporting organizations, but only up to the standard limit of 60 percent of AGI. The balance of the amounts withdrawn could be donated to the Federation or operating charities. Such a strategy, however, could impact other AGI-based calculations, such as the Medicare premiums discussed above. State income tax consequences would need to be considered. This strategy may only be appropriate in states without an income tax.
    - *Note*: *Because this strategy requires detailed information regarding a donor’s financial and tax posture, the donor’s advisor should be part of this discussion.*

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4. Some IRA owners may wish to maximize tax benefits by choosing to delay QCDs they normally would make in 2020 until January 2021 when the RMD waiver will have expired, and then make their normal QCDs later in the year, thus increasing their total QCDs and reducing their taxable income. This approach would be appropriate for IRA owners who ordinarily make QCDs of less than $100,000.
    - For example, assume the IRA owner has an annual RMD of $50,000 and usually makes a QCD of $20,000 each year. The owner could defer the 2020 gift until 2021 and make an additional QCD of $20,000 in 2021 so that only $10,000 would be taxable ($50,000 RMD - $40,000 QCD = $10,000 taxable income).
    - Individuals who defer making QCDs until 2021 could also see an improvement in the value of IRA accounts if the stock market rebounds by then.
    - Donors who defer 2020 contributions or commitments to take advantage of the bunching strategy may wish to alert recipient charities of their plans so the organizations may factor that possibility into cash flow planning for the year, especially in the case of larger QCDs.

5. Changes in the SECURE Act – principally the significant limitations placed on so-called “Stretch IRAs” – make it more important to reevaluate estate plans for those with significant IRA accounts. Making QCDs up to $100,000 in 2020, while not providing the same income tax benefit as 2021 QCDs, could provide a future estate tax savings for donors with taxable estates (over $11.58 million per individual in 2020). A donor’s taxable estate could be reduced, resulting in less estate tax and preserving non-IRA assets that will not be burdened with income taxes for heirs.

Review Charitable Giving and Tax Strategies
At a minimum, the changes in the CARES Act regarding RMDs and charitable donations made in cash require those with significant IRA and retirement accounts to review their giving strategies. Donors who do not need their RMDs to meet their needs could see significant tax savings because they will not have to take taxable distributions.

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