

Answers to commonly asked questions related to the CARES Act, Families First Act and other legislation for COVID-19 relief



As a reminder, the client always should speak with a tax professional to discuss the tax implications of any decision regarding their retirement plans and the taxation of any transaction exceptions covered by the COVID-19 illness.

Q. Has the 2019 IRA contribution deadline been extended?

A. Yes. Contributions can be made to an IRA, for a particular year, at any time during the year or by the due date for filing your return for that year. Because the due date for filing federal income tax returns has been postponed to July 15, the deadline for making contributions to an IRA for 2019 is also extended to July 15, 2020. The IRS extended the deadline to make 2019 contributions to eligible IRAs (Traditional, Roth, IRA for Minors, Contributory, and Beneficiary IRAs) from April 15, 2020 to July 15, 2020. Accordingly, clients can make IRA contributions and designate them as 2019 contributions through July 15, 2020.

Q. Can my client take a premature distribution from his or her IRA or qualified plan without incurring a penalty and without requiring the 20% withholding?

A. Individuals who were diagnosed with COVID-19—or those with a spouse or dependent who was diagnosed—as well as those who have experienced adverse financial effects due to quarantine, furlough, layoff, or reduction in work hours because of the coronavirus—can withdraw up to \$100,000 from IRAs or other qualified retirement plans without the standard penalty or taxes. These distributions are not subject to the 10% early distribution penalty, nor are qualified plan distributions for these purposes subject to the mandatory 20% tax withholding. This provision applies to qualified distributions made between January 1, 2020, and December 31, 2020. For QRP accounts, the plan sponsor may rely on a participant's certification that the conditions for making this distribution are met.

In addition, amounts withdrawn from a retirement account for this reason are considered income received over a three-year period for tax purposes. For example, an individual who withdraws \$100,000 in 2020 as a qualified distribution would include one-third of that amount in income for each of the 2020, 2021, and 2022 tax years. Individuals who take these distributions will also have three years to repay the amount to the retirement account, if they choose to do so. Any repayments to the retirement account will be treated as rollovers and do not count against the individual's annual contribution limits.

Q. How do I handle a transaction where the client is taking distributions from his or her retirement account without penalties and without withholding under the CARES Act exception?

A. The Standard Distribution Form now has a box you can check that says, "Qualified for CARES Act Exception" and "No Withholding – qualifies for the CARES Act Exception."

Distributions from an IRA or Retirement Plan can be processed using the standard method using our distribution form and adding a note "Qualifies for CARES Act Exception" or similar note. A separate letter could also be created and attached to the distribution form. Supporting documentation should be retained by the client for tax reporting obligations and handling. The distribution will be coded as either "Normal" or "Premature" and the standard reporting to the IRS will continue.

Withholding can be also noted on the form that the client wishes to not have the mandatory withholding held and sent to the IRS. Adding a note “No withholding – qualifies for CARES Act Exception” or similar note in the withholding section will also be acceptable.

Q. Do retirees have to take required minimum distributions (RMDs) from retirement accounts in 2020?

A. No, all RMDs have been suspended for 2020. This waiver includes any retirement account subject to RMDs, such as IRAs, 401(k)s, Roth 401(k)s, and inherited accounts. A client can suspend or cancel their systematic distribution request. It’s also possible if the client took a distribution from their IRA or plan, they could roll over those funds within 60 days.

Q. What age do clients have to be to qualify for the RMD waiver?

A. If the client is subject to RMDs, the waiver applies to him or her regardless of age. Clients are subject to RMDs if they turned 70½ before December 31, 2019.

Q. Does the RMD waiver apply to inherited IRAs?

A. Yes. The waiver extends to inherited IRAs (including stretch IRAs). It even appears that inherited IRAs with non-spousal beneficiaries, which would normally need to be liquidated within five years of the original account-holder’s death, are not required to take a distribution in 2020. Beneficiaries have an extra year to fulfill the five-year requirement, since RMDs can be skipped in 2020.

Q. If the client has an inherited IRA and already took an RMD for 2020, can he or she re-contribute the distribution?

A. Inherited IRA distributions are not generally eligible for a rollover; therefore, assuming the IRS offers no other guidance, distributions from an inherited IRA that have already been taken can’t be re-contributed. However, it’s possible that a beneficiary impacted by COVID-19 will be able to count the amount as a COVID-19 related distribution and re-contribute the amount. The client should consult with his or her tax professional.

Q. Are defined benefit plans (such as pensions) also included in the RMD waiver?

A. No, defined benefits plans are not included, so if the client is supposed to take distributions from a defined benefit (DB) plan, he or she must continue to do so.

Q. Under Internal Revenue Code 72(t), the client is taking “substantially equal periodic payments” penalty-free from his or her retirement account. Does the RMD waiver apply?

A. No, it doesn’t appear the waiver covers this type of distribution. A substantially equal periodic payment is not the same as an RMD, which means the client will have to continue to take those distributions.

Q. How will E*TRADE Advisor Services handle requests to suspend or cancel systematics?

A. If we have an advisor authorization on file, the RIA can send an email requesting suspension and provide a re-start date or can provide instructions to cancel a systematic. If we do not have an advisor authorization on file, the advisor can suspend (without client authorization) for up to a year any systematic on an account. However, if the client wishes to cancel a systematic, the client will need to send a letter of instruction including the client’s signature directing us to cancel the systematic if the advisor does not have full authorization already on file.

Q. Are state income tax filings also deferred to July 15?

A. Although federal income tax filings are deferred to July 15, 2020, state filing deadlines vary. We recommend that the RIA/client contact their state’s tax agency to see if their filings will be deferred and to what date.

Q. Given the work-from-home COVID-19 restrictions, how can I make sure my requests are not delayed?

A. Liberty can help you save time and reduce the stress on your team by allowing you to manage paperwork electronically. You can securely upload paperwork and forms right on Liberty. Download step-by-step instructions on how to upload documents in Liberty [here](#). You can also request funds to be sent via ACH or wire.

We also recommend that you promote eDelivery to your clients. You can also have your clients receive documents faster and in a more secure fashion by encouraging them to sign up for eDelivery. They can do this right on Liberty.

Clients will be able to get electronic delivery of all their statements and other important mailings, accessible on the Liberty website.

If you have questions about how to electronically upload documents or help clients set up eDelivery, or if you are interested in learning about your account owners that have systematic distributions via check, please contact your Relationship Manager.

As always, please consult your tax advisor if you have questions about the CARES Act, the Family First Act, IRS deadline extensions, and state-specific relief in terms of how they may impact a specific situation. It is also important to realize that there may be updates and further legislation forthcoming.

E*TRADE Financial Corporation and its affiliates do not provide tax advice, and you always should consult your own tax advisor regarding your personal circumstances before taking any action that may have tax consequences.

This guide is not intended to be an exhaustive summary of the cited legislation, and E*TRADE Advisor Services provides this information as a service for educational purposes only. E*TRADE Advisor Services undertakes no obligation to update this information or advise you of any changes in the event there is a change in law or facts after the date hereof. It should not be construed or relied on as legal advice and is not intended as an opinion and should not be relied upon as such. Readers should not act upon this information without seeking advice from professional advisors. In addition, this information was not intended or written to be used, and cannot be used, by any person for the purpose of avoiding any US federal, state, or local tax penalties that may be imposed on such person.

Investment Products: Not FDIC Insured - No Bank Guarantee - May Lose Value.

E*TRADE, E*TRADE Advisor Services, and Liberty are registered trademarks or trademarks of E*TRADE Financial Corporation. All other trademarks mentioned herein are the property of their respective owners. Product and service offerings are subject to change without notice.

E*TRADE Savings Bank and its affiliates ("E*TRADE") do not warrant these products, services and publications against different interpretations or subsequent changes of laws, regulations and rulings. E*TRADE does not provide legal, accounting, or tax advice. Always consult your own legal, accounting, and tax advisors.

© 2020 E*TRADE Savings Bank, doing business as "E*TRADE Advisor Services." Member FDIC. All rights reserved.

