

IRS Guidance: Coronavirus-Related Distributions and Loans from Retirement Plans Under the CARES Act

The IRS issued Notice 2020-50 on June 19th, providing additional guidance for section 2202 of the CARES Act for qualified individuals and retirement plans. This includes expanding the categories of individuals eligible for coronavirus-related distributions and loans, in addition to examples of how qualified individuals will reflect the tax treatment of these distributions and loans on their federal income tax filings.

The CARES Act provides that qualified individuals may treat as coronavirus-related distributions up to \$100,000 in distributions made from their eligible retirement plans (including IRAs) between Jan. 1 and Dec. 30, 2020. A coronavirus-related distribution is not subject to the 10% additional tax that otherwise generally applies to distributions made before an individual reaches age 59 ½. In addition, a coronavirus-related distribution can be included in income in equal installments over a three-year period, and an individual has three years to repay a coronavirus-related distribution to a plan or IRA and undo the tax consequences of the distribution.

In addition, the CARES Act provides that plans may implement certain relaxed rules for qualified individuals relating to plan loan amounts and repayment terms. In particular, plans may suspend loan repayments that are due from March 27 through Dec. 31, 2020, and the dollar limit on loans made between March 27 and Sept. 22, 2020, is raised from \$50,000 to \$100,000.

As authorized under the CARES Act, Notice 2020-50 expands the definition of who is a qualified individual to take into account additional factors such as reductions in pay, rescissions of job offers, and delayed start dates with respect to an individual, as well as adverse financial consequences to an individual arising from the impact of the COVID-19 coronavirus on the individual's spouse or household member. As expanded under Notice 2020-50, a qualified individual is anyone:

- who is diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (referred to collectively in this notice as COVID-19) by a test approved by the Centers for Disease Control and Prevention (including a test authorized under the Federal Food, Drug, and Cosmetic Act);
- whose spouse or dependent is diagnosed with COVID-19 by a test approved by the Centers for Disease Control and Prevention (including a test authorized under the Federal Food, Drug, and Cosmetic Act); or
- who experiences adverse financial consequences as a result of:
 - » the individual being quarantined, being furloughed or laid off, or having work hours reduced due to COVID-19;
 - » the individual being unable to work due to lack of childcare due to COVID-19; or
 - » closing or reducing hours of a business owned or operated by the individual due to COVID-19.
- who has a reduction in pay (or self-employment income) due to COVID-19 or having a job offer rescinded or 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 childcare due to COVID-19, having a reduction in pay (or self-employment income) due to COVID-19, or having a job offer rescinded or 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.

For purposes of applying these additional factors, a member of the individual's household is someone who shares the individual's principal residence.

Notice 2020-50 clarifies that employers can choose whether to implement these coronavirus-related distribution and loan rules, and notes that qualified individuals can claim the tax benefits of coronavirus-related distribution rules *even if plan provisions aren't changed*. If a plan does not allow for CRD distribution, but a participant takes a hardship or other in-service withdrawal during the CRD period (January 1, 2020 – December 31, 2020), the participant may elect the favorable tax treatment and/or recontribute the withdrawal amount to the plan. The guidance clarifies that administrators can rely on an individual's certification that the individual is a qualified individual (and provides a sample certification), but also notes that an individual must actually be a qualified individual in order to obtain favorable tax treatment.

The complete notice is available [here](#).

Source: [irs.gov](https://www.irs.gov)

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