

Relief for Taxpayers Affected by COVID-19 Who Take Distributions or Loans From Retirement Plans

Cross References

- IR-2020-124, June 19, 2020
- Notice 2020-50

The Internal Revenue Service has released Notice 2020-50 to help retirement plan participants affected by the COVID-19 coronavirus take advantage of the CARES Act provisions providing enhanced access to plan distributions and plan loans. This includes expanding the categories of individuals eligible for these types of distributions and loans (referred to as “qualified individuals”) and providing helpful guidance and examples on 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 January 1 and December 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 59½. In addition, a coronavirus-related distribution can be included in income in equal installments over a 3-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 December 31, 2020, and the dollar limit on loans made between March 27 and September 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, or whose spouse or dependent is diagnosed, with the virus SARS-CoV-2 or the coronavirus disease 2019 (collectively, “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

- Experiences adverse financial consequences as a result of the individual, the individual's spouse, or a member of the individual's household (that is, someone who shares the individual's principal residence):
 - 1) Being quarantined, being furloughed or laid off, or having work hours reduced due to COVID-19,
 - 2) Being unable to work due to lack of childcare due to COVID-19,
 - 3) Closing or reducing hours of a business that they own or operate due to COVID-19,
 - 4) Having pay or self-employment income reduced due to COVID-19, or
 - 5) Having a job offer rescinded or start date for a job delayed due to COVID-19.

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. 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. Further, Notice 2020-50 provides employers a safe harbor procedure for implementing the suspension of loan repayments otherwise due through the end of 2020, but notes that there may be other reasonable ways to administer these rules.

Employers, financial institutions, and individuals should refer to Notice 2020-50 for more details about how the CARES Act rules for coronavirus-related distributions and loans from plans apply.