

Just in: Expanded access to coronavirus-related distributions

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Many people have suffered a financial loss as a result of COVID-19. Now, more may be eligible for coronavirus-related distributions (CRDs) from retirement accounts.

A CRD is a distribution made from an eligible retirement plan. It can be taken by an IRA account owner or by a participant in a qualified employer plan, if the plan permits. With a new [IRS Notice](#), it's now clear that a CRD can be used for health or economic reasons when **an individual or someone in the individual's household*** is affected by COVID-19.

To apply, people must self-certify that they meet one of the qualifying CRD conditions. A "qualified individual" is any **individual, their spouse or their dependent** who has received a diagnosis of COVID-19 or experienced adverse financial consequences as a result of the pandemic. In previous regulatory guidance, financial hardship was tied to the individual alone.

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Prior IRS CRD guidance	New IRS Notice 2020-50 expansion
Tied to an individual's reduced work hours	Eligible if an individual, their spouse or a member of their household has had work hours reduced, a reduction in pay (or self-employment income) or a job offer rescinded or delayed
Eligible if the individual experiences quarantine, furlough, layoff or inability to work due to lack of childcare	Expanded to cover the individual, their spouse or a member of their household
Based on closing or reduced hours of a business owned or operated by an individual	Expanded to cover a business owned by an individual, their spouse or a member of their household

The coronavirus-related distribution (CRD) can be up to \$100,000 in aggregate per individual. The 10% early withdrawal penalty is waived, as is the required 20% withholding by qualified plans. Pretax dollars are treated as ordinary income for federal income tax purposes, but with a special provision. Those seeking a CRD have until December 30, 2020 to make their request.



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A CRD withdrawal can be spread pro rata across three years for federal tax purposes. For example, a \$30K CRD taken in 2020 can be treated as three distinct withdrawals of \$10K each for tax years 2020, 2021 and 2022.

A withdrawal can also be rolled over (repaid). If it's placed in a traditional IRA or qualified plan at any time until December 31, 2022, it's not considered taxable income. Any income that was included in a prior tax year filing can be considered exempt by filing an adjusted tax return; the repaid amount can be used to offset the CRD amount included in a future tax year (2021 or 2022).

The CARES Act also allows people to borrow a higher amount from qualified plans with loan provisions. Loans are normally limited by regulation to the lesser of \$50,000 or 50% of the participant's vested account balance. In 2020, qualified plans can offer an increased maximum loan amount to the lesser of \$100,000 or 100% of the vested account balance. And plan sponsors can elect to delay loan repayments on new and outstanding loans in 2020.

As with the CRD, changes in loan provisions are elective for qualified plans. A plan sponsor can implement either or both options before amending the plan document and has until the end of 2022 (2024 for a governmental 457(b) plan) to make the amendment.

Bottom line: More people may now qualify for coronavirus-related distributions.

Investors with access to other resources should consider using them prior to using a CRD or loan to withdraw or borrow from retirement assets. But if someone does need to tap into their retirement assets, the CARES Act provides a flexible distribution option and increased loan provision available only in 2020.

DISCLOSURES

* For purposes of IRS Notice 2020-50, a member of the individual's household is someone who shares the individual's principal residence.



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