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Notice 2020-50: Retirement plan distributions and loans, CARES Act relief (COVID-19)

The IRS today released an advance version of Notice 2020-50 as guidance relating to measures of the "Coronavirus Aid, Relief, and Economic Security Act" (CARES Act) (Pub. L. No. 116-136) that provide favorable tax treatment in response to the coronavirus (COVID-19) pandemic for individuals that take certain distributions from eligible retirement plans that are "coronavirus-related distributions."

Read **Notice 2020-50** [PDF 91 KB]

The guidance in Notice 2020-50 is intended to help retirement plan participants affected by COVID-19 to take advantage of the CARES Act provisions. These measures provide enhanced access to plan distributions and plan loans, include expanded categories of individuals eligible for these types of distributions and loans ("qualified individuals"), and include examples on how qualified individuals will reflect the tax treatment of these distributions and loans on their federal income tax filings.

The CARES Act (enacted March 27, 2020) allows qualified individuals receive favorable tax treatment with respect to distributions from eligible retirement plans that are coronavirus-related distributions. As explained by today's IRS notice, a coronavirus-related distribution:

- Is not subject to the 10% additional tax under section 72(t) (including the 25% additional tax under § 72(t)(6) for certain distributions from SIMPLE IRAs)
- Generally is includible in income over a three-year period
- To the extent the distribution is eligible for tax-free rollover treatment and is contributed to an eligible retirement plan within a three-year period, will not be includible in income

A provision of the CARES Act also increases the allowable plan loan amount under section 72(p) and permits a suspension of payments for plan loans outstanding on or after March 27, 2020, that are made to qualified individuals.

Notice 2020-50 is also intended to assist employers and plan administrators, trustees, and custodians and qualified individuals by providing guidance on how plans may report coronavirus-related

distributions and how individuals may report these distributions on their individual federal income tax returns.

Read a related IRS release—**IR-2020-124** (June 19, 2020)—that further explains:

- 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 years. 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.

- Retirement 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.

- The definition of who is a qualified individual is expanded 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 effects of COVID-19 on the individual's spouse or household member. 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 (that is, 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):

        - 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

        - Closing or reducing hours of a business that they own or operate due to COVID-19

        - Having pay or self-employment income reduced due to COVID-19

        - 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 qualified individuals can claim the tax benefits of coronavirus-related distribution rules even if plan provisions are not changed.

- Plan administrators can rely on an individual's certification that the individual is a qualified individual (and provides a sample certification), but an individual must actually be a qualified individual in order to obtain favorable tax treatment.

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

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