

Employee Benefits Alert

IRS Issues Guidance for Individuals on Coronavirus-Related Distributions from Retirement Plans

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The IRS has provided much needed guidance in Notice 2020-50 to plan participants and beneficiaries on requesting and reporting coronavirus-related distributions from retirement plans under the provisions of the CARES Act. The CARES Act, which was originally enacted in March 2020, generally allows early distributions of up to \$100,000 to be taken from retirement plans between January 1, 2020 and December 31, 2020 without paying the 10% early withdrawal tax and the option to pay the income tax on the distribution ratably over a 3-year period or repay all or a portion of the distribution to the plan within 3 years. In addition, the CARES Act increases retirement plan loan limits for loans made on or after March 27, 2020 and before September 23, 2020 and allows for a one-year deferral of any loan payment that is due between March 27, 2020 and December 31, 2020. The following is a summary of the new IRS guidance as it relates to individuals who receive coronavirus distributions.

Identifying and Receiving Coronavirus-Related Distributions

- Individuals may now establish that they have experienced adverse financial consequences that qualify them for a coronavirus distribution if a spouse or member of their household is affected by one of the conditions listed in the CARES Act or Notice 2020-50; a member of the individual's household is someone who shares the individual's principal residence.
- A reduction in pay (or self-employment income) due to COVID-19, or having a job offer rescinded or the start date for a job delayed due to COVID-19, are additional factors that may result in adverse financial consequences that qualify an individual for a coronavirus distribution.
- Individuals may designate a distribution as a coronavirus distribution even if the plan does not.
- Required minimum distributions, periodic payments and distributions to beneficiaries, or a reduction or offset of a qualified individual's account balance in order to repay a plan loan, can all be treated as coronavirus distributions and be included in income ratably over 3 years.
- Certain types of distributions, such as corrective distributions and returns of excess contributions necessary to satisfy the basic tax-qualification requirements, cannot be treated as coronavirus distributions.
- The amount of a coronavirus distribution is not limited to amounts withdrawn solely to meet a need arising from COVID-19, can be made without regard to the actual need for funds, and is not required to correspond to the actual extent of the adverse financial consequences.

Recontributions of Coronavirus-Related Distributions

- Only a coronavirus distribution that is eligible for tax-free rollover treatment can be recontributed to an eligible retirement plan; hardship distributions are permitted to be recontributed, even though they are generally not eligible rollover distributions.
- For plans that do not accept any rollover contributions, there is no requirement that they must change their terms or procedures to accept recontributions of coronavirus distributions.
- Distributions to beneficiaries (other than the surviving spouse of the employee or IRA owner) cannot be recontributed to an employer retirement plan or IRA.
- Recontributions of coronavirus distributions will not be treated as rollover contributions for purposes of the one-rollover-per-year limitation.

Reporting Coronavirus-Related Distributions and Recontributions

- Individuals must use Form 8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments (or if there is no federal income tax return for 2020, just file Form 8915-E) to determine the amount of the coronavirus distribution that is includible in income for the taxable year and to report any recontribution made during the taxable year.
- The election between including the entire amount of the distribution in income for the year of the distribution or ratably over 3 years cannot be made or changed after the timely filing of the individual's federal income tax return (including extensions) for the year of the distribution.
- If the entire distribution is reported in income in the year of distribution, recontributed distributions made –
 - Before the timely filing of the individual's federal income tax return (including extensions) will reduce the amount of the coronavirus distribution included in gross income for the year.
 - After the timely filing of the individual's federal income tax return require the filing of an amended federal income tax return (including a revised Form 8915-E) for the year of distribution.
- If the coronavirus distribution is included in income ratably over a 3-year period –
 - Recontributions made on any date before the timely filing of the individual's federal income tax return (including extensions) for a tax year within the 3-year period, will reduce the ratable portion of the coronavirus distribution that is includible in gross income for that tax year.
 - Recontributions that are more than the ratable amount required to be included for the year can be carried forward to reduce the amount included in the following year or carried back to a prior taxable year(s) in which the distribution was included in income (and an amended federal income tax return must be filed for the prior taxable year(s)).
- If the individual dies before the full taxable amount of the coronavirus distribution has been included in gross income, the remainder must be included in the year of death.