# Retirement Plan Distributions & Loans

## CORONAVIRUS-RELATED RETIREMENT FUNDS DISTRIBUTIONS
(Act Sec 2202(a))

The Act allows qualified taxpayers to make coronavirus-related distributions from qualified plans or IRAs not to exceed $100,000. Act Sec 2202(a)(2).

**Qualified Taxpayer** – A qualified taxpayer is one (Act Sec 2202(a)(4)(A)):

(I) That is diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention,

(II) Whose spouse or dependent is diagnosed with such virus or disease by such a test, or

(III) Who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of child care due to such virus or disease, closing or reducing hours of a business owned or operated by the individual due to such virus or disease, or other factors as may be determined by the Secretary of the Treasury.

**Distribution Period** – From January 1, 2020 and before December 31, 2020. (Act Sec 2202(a)(4)(A)(i))

**10% Penalty Waived** – Coronavirus-related distributions are not subject to the 10% early withdrawal penalty. (Act Sec 2202(a)(1))

**Taxability Spread Over 3 Years** – The Act permits the taxpayer to spread the income from a coronavirus-related distribution over a three-year period beginning with the year of distribution or elect out (i.e., report it all in the distribution year). Act Sec 2202(a)(5).

**Re-contribution Option** – Any amount of the distribution can be re-contributed in one or more re-contributions over the 3-year period beginning on the day after the date of the distribution. If the funds are re-contributed, they are treated as having been transferred via direct trustee-to-trustee transfer within the 60-day limit that would have applied if it were a rollover. Act Sec 2202(a)(3).

## **QUALIFIED RETIREMENT PLAN LOANS** (Act Sec 2202(b))

Under current law, a loan from a qualified employer plan to a participant or beneficiary is treated as a plan distribution unless the loan amount is the lesser of $50,000 or half of the present value of the employee's nonforfeitable accrued benefit under the plan. There is an exception that allows a loan up to $10,000 without regard to the accrued benefit rule and the loan is required to be repaid within 5 years (longer repayment can be used for a principal residence plan loan).

**Maximum Amount –** The Act increases the maximum amount a plan participant or beneficiary can borrow from a qualified employer plan from $50,000 to $100,000.  Act Sec 2202(b)(1)(A) The "half of present value" test is changed to ''the present value of the nonforfeitable accrued benefit of the employee under the plan.'' Act Sec 2202(b)(1)(B)

**Longer Repayment Period** – For loans in existence as of the enactment date or taken out after the enactment date and through December 31, 2020, that have a due date in the period from the date of enactment through December 31, 2020, shall have the due date delayed by one year.

Any subsequent repayments with respect to any such loan are to be adjusted to reflect the delay in the due date and any interest accruing during the delay period. In determining the 5-year repayment period and the term of a loan, the 1-year delay period shall be disregarded. (Act Sec 2202(b)(2))

## **MINIMUM REQUIRED DISTRIBUTION (RMD) WAIVER** (Act Sec 2203(a))

The Act waives 2020 required minimum distributions from defined contribution plans and IRAs. Waiver includes required minimum distributions that are due by April 1, 2020, because the account owner turned 70½ in 2019.

**Note:** The legislation modifies Sec 401(a)(9); thus, this waiver also applies to beneficiary distributions.

**RMD Rollover**: The 2020 waiver of RMDs was not announced until the CARES Act was passed on March 27, 2020. Normally an RMD cannot be rolled over, but the CARES Act essentially changed 2020 RMDs into eligible rollover distributions, which can be rolled over within 60 days of being distributed. Some individuals subject to the RMD requirements had already taken their RMD before the CARES Act was enacted and did not have the opportunity to roll the RMD back into their retirement account if the 60-day rollover period had expired. That issue was alleviated by Notice 2020-23 which invoked the disaster provisions of Rev. Proc.

2018-58 that extended the rollover period. Thus, any 60-day rollover period that ends on or after April 1, 2020 and before July 15, 2020 is extended through July 15, 2020. Unfortunately, those who took their RMD in January do not benefit from the extension to July 15, 2020 (unless IRS provides further relief).