SFP WEALTH STRATEGIES

EXPANDED HELP FOR THOSE IMPACTED BY COVID-19 - DIRECTLY AND ECONOMICALLY

IRS NOTICE 2020-50

https://www.irs.gov/pub/irs-drop/n-20-50.pdf

The IRS has released guidance regarding the CARES Act temporary liberalization of the rules providing access to to IRAs and 401ks.

If you meet Notice 2020-50's expanded definition of a ***qualifed individual,*** you are able to take distributions from IRAs, 401ks, or other specified retirement plans without tax penalties (but still taxed) and 401k plan loans on more favorable conditions.

Qualified Individuals

As expanded under the Notice, a qualified individual is anyone who is:

- diagnosed, or whose spouse or dependent is diagnosed, with the virus COVID-19 by a test approved by the Centers for Disease Control and Prevention (CDC) 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
  - 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  - having a job offer rescinded or start date for a job delayed due to COVID

Distributions

The CARES Act provides that *qualified individuals* may treat coronavirus-related distributions **up to $100,000 in distributions** made from their eligible retirement plans (including IRAs) **between Jan. 1 and Dec. 30, 2020.**

This type of distribution is not subject to the 10% penalty tax that applies to most distributions made before an individual reaches age 59 ½.

For tax purposes, a coronavirus-related distribution can also be included in income in equal installments over a three-year period. (See: *p11 of Notice 2020-50, for tax form guidance.*)

If they choose to do so, under CARES, an **individual has three years to repay** a coronavirus-related distribution to a plan or IRA and undo the tax consequences of the distribution.

Employer Retirement Plans

The CARES Act also provides that employer sponsored retirement plans, such as 401k, may implement relaxed rules for qualified individuals relating to plan loan amounts and repayment terms.

Per Notice 2020-50, the CARES Act provides, "…plans may suspend loan repayments that are due from *March 27 through Dec. 31, 2020*, and the dollar limit on *loans made between March 27 and Sept. 22, 2020, is raised from $50,000 to $100,000…*"

The Notice clarifies that employers can choose whether to implement these corona virus 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 explains that *plan administrators can rely on an individual's certification that they're a qualified individual* (and includes a sample certification on *p.9, Notice 2020-50*). (Obviously, and it should go without saying, the employee still needs to meet the eligibilty requirements that this article spells above.)

The notice also gives 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.

Employer Executive Deferral Plans

Some employers sponsor exective benefit plans, subject to IRC Section 409A, allowing eligible employees a chance to defer additional income. Under the Notice, a plan may provide for a cancellation of the employee's deferral election, or such a cancellation may be made, due to a coronavirus-related distribution - described above – from an employer's plan, (e.g., 401k). The deferral election must be cancelled, not merely postponed or otherwise delayed.

Source: IRS Notice 2020-50

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