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INSIGHT

Internal Revenue Service (IRS) Guidance for Coronavirus-Related Distributions, Plan Loans, and Required Minimum Distribution (RMD) Rollovers

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On June 19, 2020, the Internal Revenue Service (IRS) released Notice 2020-50. Among other guidance, the notice outlines additional factors that qualify an individual for the retirement account distribution and loan relief provisions in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136). On June 23, 2020, IRS released Notice 2020-51, which extends the 60-day rollover period to August 31, 2020, for distributions that otherwise would have been required minimum distributions (RMDs) in 2020—had the CARES Act not suspended them.

The CARES Act, Coronavirus-Related Distributions, and Plan Loans

Section 2202 of the CARES Act exempts qualified individuals from the 10% early withdrawal penalty for distributions of up to $100,000 taken from qualified retirement plans (e.g., defined contribution [DC] plans and individual retirement accounts [IRAs]) from January 1, 2020, through December 31, 2020. The CARES Act defines qualified individuals as those (1) who tested positive for Coronavirus Disease 2019 (COVID-19) or those with a spouse or dependent who tested positive for COVID-19; (2) facing financial difficulties due to being quarantined, furloughed, laid off, or unable to work due to lack of child care or reduced work hours as a result of COVID-19; (3) who own or operate a business that closed or reduced hours as a result of COVID-19; or (4) facing other factors as determined by the Secretary of the Treasury.

Section 2203 of the CARES Act provides DC plan loan relief for qualified individuals by (1) increasing loan limits for loans taken from March 27, 2020, and before September 23, 2020, and (2) delaying certain loan repayments by one year. Qualified individuals are defined in Section 2203 in the same way as for coronavirus-related distributions.

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IRS Guidance for Coronavirus-Related Distributions and Loans

Under authority given in the CARES Act, Notice 2020-50 outlines additional factors that qualify an individual as eligible for coronavirus-related distributions or plan loan relief. The additional qualifying factors include

- the individual having a reduction in pay (or self-employment income), a job offer rescinded, or start date for a job delayed due to COVID-19;
- the individual's spouse or household member being quarantined, furloughed or laid off, having work hours reduced due to COVID-19, being unable to work due to lack of child care due to COVID-19, or having a reduction in pay (or self-employment income) or a job offer rescinded or start date for a job delayed due to COVID-19; or
- the individual's spouse or household member owning or operating a business that closed or reduced hours due to COVID-19.

A member of an individual's household is someone who shares the individual's principal residence. Plan administrators may rely on employees' certifications as proof that they are qualified individuals.

Notice 2020-50 also describes a safe harbor for plan administrators implementing delayed loan repayments.

The CARES Act and Required Minimum Distributions

RMDs are annual withdrawals that individuals with certain retirement accounts may be required to make under specified conditions, such as after reaching a certain age or inheriting a retirement account. RMD rules apply to DC accounts (e.g., 401(k), 403(b), and 457(b) accounts), traditional IRAs, and Designated Roth Accounts (e.g., a Roth 401(k) account). Original owners of Roth IRAs do not have to take RMDs, though beneficiaries that inherit Roth IRAs may be required to. Section 2203 of the CARES Act suspends RMDs for 2020. A special rule applies the RMD suspension to individuals taking their first RMD from January 1, 2020, to April 1, 2020.

The CARES Act was enacted March 27, 2020, after some individuals had taken their 2020 RMDs. These distributions are no longer considered RMDs and may be *eligible rollover distributions* that could be rolled over to a plan that accepts rollover contributions. In general, individuals who directly receive an eligible rollover distribution and want to roll it over must transfer part or all of the distribution to another retirement plan within 60 days (sometimes referred to as "the 60-day rule").

IRAs are also subject to a "one rollover per year rule," which applies to 60-day rollovers between IRAs. Individuals are allowed to roll over amounts from one IRA to another IRA only once in a 12-month period (the rule does not apply to conversions from traditional to Roth IRAs). If individuals did one such rollover in the past 12 months, then they could not roll over their waived RMD to an IRA.

Individuals who received distributions that would have been considered their RMDs in early 2020 may have missed the 60-day rollover deadline. In addition, individuals with IRAs who had rolled over amounts to another IRA once in the previous 12-month period would not be eligible to complete another rollover.

For more information on these retirement-related provisions in the CARES Act, see CRS In Focus IF11482, *Retirement and Pension Provisions in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)*.

IRS Guidance for Required Minimum Distribution Rollovers

On April 6, 2020, IRS released Notice 2020-23, which extended until July 15 the due date for any tax deadline that falls from April 1 to May 15. Under this guidance, eligible rollover distributions taken from February 1, 2020, to May 15, 2020, had to be rolled over by July 15, 2020.

On June 23, 2020, IRS released Notice 2020-51, which provided further relief by extending the 60-day rollover period to August 31, 2020, for distributions that otherwise would have been RMDs in 2020. For example, an individual who received a distribution in January 2020—one that would have been considered an RMD had the CARES Act not suspended RMDs—has until August 31, 2020, to roll over this amount (provided other rollover rules are followed).

Notice 2020-51 also provides that a rollover of an IRA distribution that would have been an RMD is not subject to the one rollover per year rule or the restriction on rollovers for nonspouse beneficiaries of inherited IRAs.

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