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## IRS Releases New Guidance on Coronavirus-related Distributions (CRDs)

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The IRS released late Friday (6/19/20) IRS Notice 2020-50 (<https://www.irs.gov/pub/irs-drop/n-20-50.pdf>) that clarifies some areas that we were uncertain about prior to its release, based upon language within the CARES Act. I will be studying all 19 pages of the guidance over the next few days but wanted to at least shed light on the most often-asked questions that I receive and how the guidance contains the answers we have been waiting for.

**Q1: If I have an IRA or 401(k) and my spouse is the one that lost his/her job, can I take the CRD out of my retirement plan since she doesn't have one?**

**A:** Yes, according to newly released guidance under *Section 1B. of Notice 2020-50*, the definition of a qualifying individual is expanded to include and be clear that, as long as an individual within the household (i.e. a person who shares the same primary residence) is affected, a CRD may be requested (or the revised loan rules applied), from any retirement account that is available to the members of the household. The aggregate of \$100,000 still applies by individual.

**Q2: If I meet the criteria as an eligible individual, may I take a CRD and convert to a Roth IRA and spread taxes on the CRD distribution ratably over the 3-year period that applies to a CRD?**

**A:** No! Any CRD that is subsequently converted to a Roth IRA must pay taxes for the year in which the CRD was executed. *Planning note:* If the CRD is later used to fund a life insurance policy, then yes, the 3-year tax spread may be used.

**Q3: Since CRDs are permitted from Inherited IRAs, can a non-spousal beneficiary later roll all or a portion back into the Inherited IRA to avoid taxes on the amount that is recontributed?**

**A:** No. Distributions from Inherited IRAs inherited by non-spousal beneficiaries may never be rolled back once distributed. Therefore, the same rules apply for a CRD. The option to spread the tax liability ratably over 3 years does, however, apply. A spousal beneficiary may, however, roll the proceeds back within the 3-year period.



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## Expanded Definition of an Eligible Individual

IRS Notice 2020-50 also expands the definition of an eligible individual to include the following. Take special note to the clarification on a reduction in work hours or income for self-employed individuals has been added and that the definition is now made clear that any member of the household experiencing this will permit a CRD to be distributed from another family member's retirement plan, as outlined above in Q1:

In addition, pursuant to the authority of the Secretary to issue guidance to provide for other factors under section 2202(a)(4)(A)(ii)(III) of the CARES Act, a qualified individual for purposes of this notice is an individual who experiences adverse financial consequences as a result of:

- the individual having a reduction in pay (or self-employment income) due to COVID-19 or having a job offer rescinded or start date for a job delayed due to COVID-19;
- the individual's spouse or a member of the individual's household (as defined below) 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, having a reduction in pay (or self-employment income) due to COVID-19, or having a job offer rescinded or start date for a job delayed due to COVID-19; or
- closing or reducing hours of a business owned or operated by the individual's spouse or a member of the individual's household due to COVID-19.

For purposes of applying these additional factors, a member of the individual's household is someone who shares the individual's principal residence.

The guidance also makes clear that there is no requirement that the affected individual prove that the amount of the distribution meets the need nor that other financial resources have been exhausted (as in the case of a hardship withdrawal), only that he/she qualifies under the expanded definition of an eligible individual and does not distribute more than \$100,000 as an aggregate total from all eligible retirement plans owned as a CRD.