

CARES Act: Special Rules for Use of Retirement Funds

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provides relief designed to increase liquidity in the economy including modifications to the rules on the use and distribution of retirement funds.

Withdrawals

The CARES Act waives the 10-percent penalty on early withdrawals up to \$100,000 from qualified retirement plans for coronavirus-related distributions. For purposes of the penalty waiver, a coronavirus-related distribution is one made during the 2020 calendar year, to an individual (or the spouse of an individual) diagnosed with COVID-19 with a CDC-approved test, or to an individual who experiences adverse financial consequences as a result of quarantine, business closure, layoff, or reduced hours due to the virus.

Any income attributable to an early withdrawal is subject to tax over a three-year period, and taxpayers may recontribute the withdrawn amounts to a qualified retirement plan without regard to annual caps on contributions if made within three years. This relief is commonly granted by Congress in the wake of major disaster declarations, such as those made after a major hurricane.

Loans

The maximum loan amount is increased from the lesser of \$50,000 or 50% of vested balance to the lesser of \$100,000 or 100% of vested balance. This increase applies to loans made between March 27, 2020 (the date of enactment of the CARES Act) and December 31, 2020.

In addition, if a qualified individual has a loan repayment due date after March 27, 2020 and before December 31, 2020, on an outstanding loan, the payment due date is delayed one year (or, if later, until the date which is 180 days after March 27, 2020). Any subsequent repayments with respect to the loan will be adjusted accordingly and the five-year period for repayment is disregarded.

Similar to the rules on withdrawals, a qualified individual is an individual (or the spouse of an individual) diagnosed with COVID-19 with a CDC-approved test, or to an individual who experiences adverse financial consequences as a result of quarantine, business closure, layoff, or reduced hours due to the virus.

Required Minimum Distributions

The CARES Act also waives required minimum distributions, regardless of whether the taxpayer has been impacted by the pandemic. The waiver applies for calendar year 2020 to defined contribution plans, certain annuity plans, and traditional or Roth IRAs. The waiver allows seniors to hold on to their plan assets when they might otherwise have to sell at market lows.

Additional Modifications

- *IRA Contribution Deadline.* The deadline to make an IRA contribution is extended to July 15, the extended due date for tax returns.
- *Mandatory 20% Withholding.* The mandatory 20% income tax withholding on rollovers is also suspended for 2020.