

# Tax-Favorable Treatment of Coronavirus-Related Retirement Distributions

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of 2020, provides for expanded distribution options and favorable tax treatment for up to \$100,000 coronavirus-related distributions from eligible retirement plans, as well as special rollover rules with respect to such distributions, to qualified individuals. Eligible retirement plans include certain employer retirement plans, such as section 401(k) and 403(b) plans, and IRAs.

## Qualified Individuals

These special provisions apply to a qualified individual only. A qualified individual is anyone who:

- is diagnosed, or whose spouse or dependent is diagnosed, with the virus SARS-CoV-2 or the coronavirus disease 2019 (collectively, "COVID-19") by a test approved by the Centers for Disease Control and Prevention (including a test authorized under the Federal Food, Drug, and Cosmetic Act); 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, or
  - 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; or
  - having a job offer rescinded or start date for a job delayed due to COVID-19.

The taxpayer will determine if they are a qualified individual. Coronavirus-related distributions are permitted without regard to the qualified individual's need for funds, and the amount of the distribution is not required to correspond to the extent of the adverse financial consequences experienced by the qualified individual.

## Distributions That Are Not Coronavirus Related

The following amounts are not coronavirus-related distributions. The taxpayer will need to determine if a distribution is or includes any of the following:

- corrective distributions of elective deferrals and employee contributions that are returned to the employee (together with the income allocable thereto) (Form 1099-R, Box 7, code 8)
- certain excess elective deferrals or contributions (Form 1099-R Box 7, code 8 )
- loans that are treated as deemed distributions (Form 1099-R, Box 7, code L)
- dividends paid on applicable employer securities (Form 1099-R, Box 7, code U)
- the costs of current life insurance protection (Form 1099-R, Box 7, code 9)
- prohibited allocations that are treated as deemed distributions (Form 1099-R, Box 7, code 5)
- distributions that are permissible withdrawals from an eligible automatic contribution arrangement
- distributions of premiums for accident or health insurance

Disaster-related distributions that are not coronavirus-related distributions are out of scope. Information on disaster-related distributions is available on [irs.gov](https://www.irs.gov).

## Exception to Additional Tax on Early Distributions

Coronavirus-related distributions are not subject to the 10% (25% for SIMPLE IRAs) additional tax on early distributions. Use Form 5329 to claim exception code 12- Other if the coronavirus-related distribution is also an early distribution, but on no more than the \$100,000 maximum.

# Tax-Favorable Treatment of Coronavirus-Related Retirement Distributions (continued)

## Three Year Ratable Inclusion in Income

A CARES Act distribution may be included in income ratably over a three-year period, starting with the year in which the distribution is received. Taxpayers may elect out of the 3-year ratable income inclusion. This election cannot be made or changed after the timely filing of the individual's federal income tax return. All coronavirus-related distributions must be treated consistently - either all distribution must be included in income over a three year period or all are included in income in the year of distribution. Each spouse who is a qualified individual will file Form 8915-E to make their election for their respective eligible distributions.

## Recontributions

A qualified individual who receives a coronavirus-related distribution that is eligible for tax-free rollover treatment is permitted to be recontributed any portion of the distribution to the same plan or another eligible retirement plan (such as an IRA) within 3 years from the day after the date of distribution. Not all coronavirus-related distributions qualify for recontribution. These amounts are **cannot** be recontributed:

- Any coronavirus-related distribution (whether from an employer retirement plan or an IRA) paid to a qualified individual as a beneficiary of an employee or IRA owner (other than the surviving spouse of the employee or IRA owner).
- Any distribution (other than from an IRA) that is one of a series of substantially equal periodic payments made (at least annually) for:
  - A period of 10 years or more,
  - The individual's life or life expectancy, or
  - The joint lives or joint life expectancies of the individual and the individual's beneficiary.
- Required minimum distributions.

Thus, pensions are not eligible for recontribution. Since RMDs were waived for 2020, qualified individuals can recontribute a distribution that would have been a 2020 RMD.

A recontribution to an eligible retirement plan at any date before the individual's federal income tax return is filed (that is, by the due date, including extensions) will reduce the ratable portion of the coronavirus-related distribution that is includible in gross income for that tax year. No election is needed and the taxpayer can decide how much, if any, to recontribute within the permitted 3 year period. If a recontribution exceeds that year's ratable taxable amount, the taxpayer can either carry back or carry forward the excess recontribution. Recontribution of an amount taxed in an earlier year will necessitate an amended return.

A recontribution of a coronavirus-related distribution will not be treated as a rollover contribution for purposes of the one-rollover-per-year limitation.

## TaxSlayer

Qualified individuals will use Form 8915-E to designate a distribution as a coronavirus-related distribution from an eligible retirement plan. The individual will identify their coronavirus-related distributions (and allocate the \$100,000 limitation, if it applies), elect or not elect the 3-year ratable inclusion in income, and show any recontributions made up through the timely filing date of the tax return. Form 5329 is used to claim the coronavirus-related distribution exception to the additional tax on early distributions. Refer to Tab H.

For more information refer to Coronavirus-related relief for retirement plans and IRAs questions and answers at: <https://www.irs.gov/newsroom/coronavirus-related-relief-for-retirement-plans-and-iras-questions-and-answers>

Disaster-related distributions are Out of Scope. For more information, refer to:

- Disaster Assistance and Emergency Relief for Individuals and Businesses at <https://www.irs.gov/businesses/small-businesses-self-employed/disaster-assistance-and-emergency-relief-for-individuals-and-businesses>
- Publication 5396, Fact Sheet for VITA/TCE Sites Impacted by Federally Declared Disasters (January 1, 2018 – December 20, 2019) at <https://www.irs.gov/pub/irs-pdf/p5396.pdf>
- Publication 5396-A, Job Aid for VITA/TCE Volunteers: Using Form 4852 when Missing the Form W-2 or 1099-R at <https://www.irs.gov/pub/irs-pdf/p5396a.pdf>
- Publication 5396-B, Casualty Loss Screening Tool at <https://www.irs.gov/pub/irs-pdf/p5396b.pdf>

# Screening Sheet for CARES Act Coronavirus-Related Retirement Plan Distributions

**Instructions:** Use this screening sheet to assist taxpayers with retirement plan distributions received on or after January 1, 2020, and before December 31, 2020, that may be eligible for special treatment.

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1. Were **you** or your **spouse** or **dependent** diagnosed with the virus SARS-CoV-2 or the coronavirus disease 2019 (collectively, "COVID-19") by a test approved by the Centers for Disease Control and Prevention (including a test authorized under the Federal Food, Drug, and Cosmetic Act);

YES NO

or

Did you or your spouse experience adverse financial consequences as a result of **you**, your **spouse**, or a **member of your household** (that is, someone who shares your principal residence):

- being quarantined, 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,
- 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, or
- having a job offer rescinded or start date for a job delayed due to COVID-19.

YES NO

**If you answered yes to either of the above**, you may be able to designate your retirement plan distribution as a coronavirus-related distribution. Continue to the next question.

**If you checked no to both, stop here. Your distribution is not a coronavirus-related distribution.**

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2. Is your distribution any of the following:

- corrective distributions of elective deferrals and employee contributions that are returned to the employee (together with the income allocable thereto) (Form 1099-R, Box 7, code 8)
- certain excess elective deferrals or contributions (Form 1099-R, Box 7, code 8)
- loans that are treated as deemed distributions (Form 1099-R, Box 7, code L)
- dividends paid on applicable employer securities (Form 1099-R, Box 7, code U)
- the costs of current life insurance protection (Form 1099-R, Box 7, code)
- prohibited allocations that are treated as deemed distributions (Form 1099-R, Box 7, code 5)
- distributions that are permissible withdrawals from an eligible automatic contribution arrangement
- distributions of premiums for accident or health insurance

YES NO

**If you answered yes, stop here. Your distribution is not a coronavirus-related distribution.**

**Note:** The maximum amount of distributions for these special provisions is \$100,000. You and your spouse are each limited to \$100,000 for either option for your respective distributions.

**First choice:** You can include your eligible distribution in income ratably over 3 years. If you select this option:

- 1/3 of your eligible distributions will be included in income in 2020, 1/3 in 2021, and 1/3 in 2022.
- all coronavirus-related retirement distributions must be treated the same (either spread all over 3 years or include the entire amount in income in 2020).
- this election cannot be changed after the timely filing of your 2020 tax return.

3. Would you like to spread the income from your distribution over the 3 years? YES NO

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# Screening Sheet for CARES Act Coronavirus-Related Retirement Plan Distributions

**Second choice:** You also may retribute all or part of a coronavirus-related distribution that is eligible for tax-free rollover treatment. You cannot retribute the following:

- Any coronavirus-related distribution (whether from an employer retirement plan or an IRA) paid to a qualified individual as a beneficiary of an employee or IRA owner (other than the surviving spouse of the employee or IRA owner).
- Any distribution (other than from an IRA) that is one of a series of substantially equal periodic payments made (at least annually) for:
  - A period of 10 years or more,
  - The individual's life or life expectancy, or
  - The joint lives or joint life expectancies of the individual and the individual's beneficiary.
- Required minimum distributions.

Additionally:

- Recontributions can be to the same account, if allowed by the administrator or trustee, or to a different account, such as an IRA.
- You have 3 years from the day after you received the distribution to retribute. A retribution up to the day you timely file your federal income tax return will reduce the ratable portion of the coronavirus-related distribution that is includible in gross income for that tax year. For example: a repayment on Feb. 1, 2021, (before you file your 2020 return) will reduce the amount included in income in 2020.

**No election is needed – just let us know how much you repay and when.**

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**You can choose both:**

- Include 1/3 of the distribution in income for 2020, 2021, and 2022, and
- Reserve the right to retribute any or all of your distribution.

You can change your mind about retributing your distribution (that is, you aren't required to retribute it). But the election to include the distribution in income ratably over three years cannot be changed once your 2020 return is filed.