



# ED SLOTT'S IRA ADVISOR

May 2020

Tax & Estate Planning for Your Retirement Savings

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### Avoiding the 10% Early Distribution Penalty

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## CARES Act Relief for Retirement Account Withdrawals and Plan Loans

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed by President Trump on March 27, 2020, includes important retirement account withdrawal and plan loan relief. This new law allows qualified individuals to take up to \$100,000 of penalty-free, coronavirus-related IRA and company plan distributions during 2020.

Further, the law allows the distributions to be repaid to IRAs or plans and permits federal income tax on those withdrawals to be spread out over three years. The CARES Act also relaxes certain plan loan rules.

### Who Gets Relief?

Although the number of victims eligible for relief during the coronavirus pandemic is much greater than the number who qualified for prior IRS relief for disasters like hurricanes and wildfires, this relief is available only to qualified individuals.

The definition of "qualified individual" includes a great many people, *but not everyone*. It includes:

- Individuals diagnosed with the SARS-CoV-2 or COVID-19 virus by a test approved by the CDC;
- Individuals whose spouse or dependent is diagnosed; *and*

■ Individuals who experience "adverse financial consequences" from:

1. Being quarantined;
2. Being furloughed or laid off or having work hours reduced;
3. Being unable to work due to lack of child care; *or*
4. Closing or reducing hours of a business owned or operated by the individual.

The law gives the Secretary of the Treasury the authority to expand this definition.

**Example 1:** José owns a five-star Spanish tapas restaurant. Due to the pandemic, he had to close his dining room and now only offers curbside pick-up. He has also been forced to reduce hours of operation. José has experienced adverse financial consequences and is a qualified individual.

**Example 2:** Tori, an architect, is fortunate in that neither she nor her spouse or dependents have been diagnosed with COVID-19. She has not been quarantined and has retained her job without a reduction in hours. However, Tori has experienced a sharp decline in the value of her 401(k) and IRA investments.

Under the CARES Act definition, Tori has not experienced adverse

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