



ED SLOTT'S IRA ADVISOR

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Tax & Estate Planning for Your Retirement Savings

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Timing Is Everything: CRD Income Inclusion and Repayment Options

Coronavirus-related distributions (CRDs) are no longer available as of December 31, 2020. However, individuals who received CRDs face a looming decision about how to include CRDs in taxable income. Those with CRDs also must decide whether to repay the CRD and, if so, the optimal time to make that repayment. On June 19, 2020, the IRS issued [Notice 2020-50](#) which provided guidance on these issues. Understanding the various and complex options available for income inclusion and CRD repayment will enable individuals to fully leverage these tax breaks.

Including CRDs as Taxable Income

Since pre-tax CRDs are subject to federal income taxes, the CARES Act softened the tax blow by allowing CRD taxable income to be spread ratably over 2020, 2021 and 2022.

The three-year CRD spread is the default. There is only one other option available: Recipients can choose to include the entire amount of the CRD as 2020 taxable income. However, this election must be made on IRS Form 8915-E by the filing of their 2020 income tax return (by April 15, 2021, or October 15, 2021 with extension). Once made, this election cannot be changed.

Why would anyone want to include the entire CRD in 2020 taxable income? For one, many people who received CRDs took a financial hit in 2020 but expect normal income to return in 2021 and 2022. Meanwhile, although federal income tax rates were historically low in 2020, tax rates for this year and next are uncertain.

Gaining six additional months from a tax-filing extension will likely give taxpayers a better sense of their 2021 and 2022 income prospects. During this time, the chances of tax law changes under a new Congress may also become clearer. For those who took a CRD, it may be best to go on extension and allow more time to decide whether to elect the one-year income inclusion. (For people expecting a tax refund, the value of filing an extension should be weighed against immediate financial needs.)

Example 1: Andres received a \$90,000 CRD in 2020 after losing his airline job. As April 15, 2021 approaches, he and his wife Rae are unsure whether to spread the CRD income over three years (\$30,000 in 2020, 2021 and 2022) or include the entire \$90,000 as 2020 taxable income. They know their 2020 taxable income was abnormally low because of Andres' unemployment. Even though Andres believes he will be rehired, he does not know when.

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