

# Why you should care about the CARES Act



IRS Notice 2020-50 expands the definition of a qualified individual to include members of an individual's household who suffer financial loss as a result of COVID-19. Anyone who shares the individual's principle residence is part of the household.

On March 27, the more than \$2 trillion Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law. It builds on prior legislation intended to address the COVID-19 pandemic by providing support to businesses and individuals. One important component of the Act is the coronavirus-related distribution (CRD) from retirement accounts.



This special retirement distribution from a qualified retirement plan is only available in 2020. IRA account holders and qualified retirement plan participants can take this distribution if permitted by their employer plan. Employers who want to offer the CRD can do so at once, and they have until December 2022 to amend their plan document. Under IRS Notice 2020-50, the IRS has further clarified that the distribution can be taken if an individual or someone in the individual's household is affected by COVID-19 for health or economic reasons. In previous regulatory guidance, every financial hardship criterion was tied to the individual alone.

Prior CRD Guidance due to COVID-19	IRS Notice 2020-50 Expansion
If the individual has reduced work hours	If the individual, a spouse or a member of household has reduced work hours, a reduction in pay (or self-employment income) or a job offer that is rescinded or delayed
If the individual experiences quarantine, furlough, layoff, or inability to work due to lack of childcare	Expanded to the individual, a spouse or a member of household
Closing or reduced hours of a business owned or operated by an individual	Expanded to a business owned by an individual, a spouse or a member of household

The coronavirus-related distribution (CRD) can be up to \$100,000 in aggregate per individual. The 10% early withdrawal penalty is waived as is the required 20% withholding by qualified plans. Pretax dollars are treated as ordinary income for federal income tax purposes, but with a special provision.

A CRD withdrawal can be spread pro rata across three years for federal tax purposes. A \$30K CRD taken in 2020 can be treated as three distinct withdrawals of \$10K each for tax years 2020, 2021 and 2022.

Further, the withdrawal can be rolled over (repaid), and if placed in a traditional IRA or qualified plan at any time until December 31, 2022, it is not taxable income. Income included in a prior tax year filing can be exempted by filing an adjusted tax return.

The CARES Act also includes the ability to borrow a higher amount from qualified plans with loan provisions. Loans are normally limited by regulation to the lesser of \$50,000 or 50% of the participant's vested account balance. For 2020, qualified plans that elect to do so can increase the maximum loan amount to the lesser of \$100,000 or 100% of the

vested account balance. And plan sponsors can elect to delay loan repayments on new and outstanding loans in 2020.

As with the CRD, changes in loan provisions are elective for qualified plans. A plan sponsor can implement either or both options before amending the plan document and has until the end of 2022 (2024 for a governmental 457(b) plan) to make the amendment.

**Bottom line: Consider other resources**

Investors with access to other resources should consider using them prior to withdrawing or borrowing from retirement assets. But if retirement assets are needed, the CARES Act provides a flexible distribution option and increased loan provision available only in 2020.

For additional information on the CARES Act, please view the [CARES Act FAQ](#) in the New & Noteworthy section on our homepage.

---

Millions of people around the world rely on **Columbia Threadneedle Investments** to manage their money, including individual investors, financial advisors and institutional investors. Together, they entrust us with \$476 billion.\*

Our reach is expansive. We have built a global team of 2,050 people, including more than 450 investment professionals sharing global perspectives across all major asset classes and markets. Our analysts are dedicated to finding original, actionable insights that are shared and debated with portfolio managers. Our independent oversight team works with portfolio teams to ensure a consistent approach and avoidance of unintended risks.

Your success is our priority.



To find out more, call **800.426.3750**  
or visit **[columbiathreadneedle.com](http://columbiathreadneedle.com)**



The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Management Investment Advisers, LLC (CMIA) associates or affiliates. Actual investments or investment decisions made by CMIA and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be appropriate for all investors. Past performance does not guarantee future results, and no forecast should be considered a guarantee either. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate.

\* In U.S. dollars as of June 30, 2020. Source: Ameriprise Q2 Earnings Release. Contact us for more current data.

Investment products offered through Columbia Management Investment Distributors, Inc., member FINRA. Advisory services provided by Columbia Management Investment Advisers, LLC. Columbia Management Investment Distributors, Inc., 225 Franklin Street, Boston, MA 02110-2804

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.

© 2020 Columbia Management Investment Advisers, LLC. All rights reserved.

CT-MK/**115952 A (07/20)** NOR1/3159001