

Filing your taxes and your 2020 CARES Act distribution

While Lincoln is not able to provide tax advice, the following is a compilation of information that may address some of the questions that may arise when filing individual tax returns after taking a Coronavirus-Related Distribution (CRD), (or such distribution that can be treated as a CRD) during 2020. For specific information, taxpayers are encouraged to talk with their own legal or tax advisor.



First, taxpayers should review the two forms and the associated instructions listed below before completing their individual tax return:

Form 8915-E “Qualified 2020 Disaster Retirement Plan Distributions and Repayments”.

This form is used to report a distribution as a CRD for 2020 along with any retribution that offsets the income.

<https://www.irs.gov/pub/irs-dft/f8915e--dft.pdf>

<https://www.irs.gov/pub/irs-dft/i8915e--dft.pdf>

Form 5329 “Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts”.

This form is used to report the exception to the 10% early distribution penalty.

<https://www.irs.gov/pub/irs-pdf/f5329.pdf>

<https://www.irs.gov/pub/irs-pdf/i5329.pdf>

Next, the IRS issued Notice 2020-50 which included information on the tax treatment of CRDs and any associated, eligible retribution. Below is a link to the entire Notice, however, for convenience we have provided the language from Section 4 of IRS Notice 2020-50 below.

<https://www.irs.gov/pub/irs-drop/n-20-50.pdf>

Notice 2020-50 Section 4. Guidance for individuals receiving coronavirus-related distributions under Section 2202 of the CARES Act

This section provides guidance for qualified individuals requesting and receiving coronavirus-related distributions.

A qualified individual receiving a coronavirus-related distribution is entitled to the following favorable tax treatment with respect to the distribution by reporting the distribution on the individual's federal income tax return for 2020 and on Form 8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments (or if there is no federal income tax return for 2020, by filing just Form 8915-E).

First, the 10% additional tax under § 72(t) (including the 25% additional tax under § 72(t)(6) for certain distributions from SIMPLE IRAs) does not apply to any coronavirus-related distribution.

Second, a coronavirus-related distribution is permitted to be included in income ratably over 3 years.

Third, a qualified individual is permitted to retribute any portion of a coronavirus-related distribution that is eligible for tax-free rollover treatment to an eligible retirement plan within the 3-year period beginning on the day after the date on which the distribution was received, and the retribution will be treated as if it were paid in a trustee-to-trustee transfer to an eligible retirement plan. See section 1.D of Notice 2020-50 for rules relating to which coronavirus-related distributions are permitted to be retributed. Qualified individuals will use Form 8915-E to report any retribution made during the taxable year and to determine the amount of the coronavirus-related distribution includible in income for the taxable year.

A. Election to designate a distribution as a coronavirus-related distribution

A qualified individual is permitted to designate certain distributions (see section 1.C of Notice 2020-50) as a coronavirus-related distribution provided the total amount treated by the individual as coronavirus-related distributions from all eligible retirement plans does not exceed \$100,000.

Example 1. If a qualified individual receives a distribution of \$50,000 in August of 2020 and a distribution of \$75,000 in September of 2020 and both distributions satisfy the definition of a coronavirus-related distribution, only \$100,000 of the \$125,000 received by the qualified individual can be treated as a coronavirus-related distribution. Thus, the individual can only treat \$100,000 of the August and September distributions as coronavirus-related distributions on the individual's 2020 federal income tax return. Assuming no § 72(t)(2) exception applies, the remaining \$25,000 of the distribution is an early distribution that is subject to the 10% additional tax. This amount must be included on the individual's 2020 federal income tax return and will not be eligible for 3-year recontribution to an eligible retirement plan.

Example 2. A section 401(k) plan distributes \$35,000 to a qualified individual on December 1, 2020. The qualified individual also receives a distribution from the individual's IRA on December 1, 2020, of \$15,000. The individual is permitted to treat both the \$35,000 from the plan and the \$15,000 from the IRA as coronavirus-related distributions on the individual's 2020 federal income tax return.

B. Income inclusion for coronavirus-related distributions

There are two methods for a qualified individual to include the taxable portion of a coronavirus-related distribution in income. A qualified individual who receives a coronavirus-related distribution is permitted to include the taxable portion of the distribution in income ratably over a 3-year period that begins in the year of the distribution. Alternatively, a qualified individual is permitted to elect out of the 3-year ratable income inclusion and include the entire amount of the taxable portion of the distribution in income in the year of the distribution. This election cannot be made or changed after the timely filing of the individual's federal income tax return (including extensions) for the year of the distribution. All coronavirus-related distributions received in a taxable year must be treated consistently (either all distributions must be included in income over a 3-year period or all distributions must be included in income in the current year).

Example. Taxpayer A receives a \$30,000 distribution from his or her IRA on October 1, 2020. Taxpayer A is a qualified individual and elects to treat the distribution as a coronavirus-related distribution. Taxpayer A uses the 3-year ratable income inclusion for the \$30,000 distribution. Taxpayer A should include \$10,000 in income with respect to the coronavirus-related distribution on each of the individual's 2020, 2021, and 2022 federal income tax returns.

C. Tax treatment of recontributions of coronavirus-related distributions

If a coronavirus-related distribution is eligible for tax-free rollover treatment (taking into account section 1.D of Notice 2020-50), a qualified individual is permitted, at any time in the 3-year period beginning the day after the date of a coronavirus-related distribution, to recontribute any portion of the distribution, but not an amount in excess of the amount of the distribution, to an eligible retirement plan. A recontribution of a coronavirus-related distribution will not be treated as a rollover contribution for purposes of the one-rollover-per-year limitation under § 408(d)(3)(B).

D. Tax treatment of recontributions of a coronavirus-related distribution made to a taxpayer who uses the 1-year income inclusion method

If a qualified individual elects to include all coronavirus-related distributions received in a year in gross income for that year and recontributes any portion of the coronavirus-related distributions to an eligible retirement plan at any time during the 3-year retribution period, then the amount of the retribution will reduce the amount of the coronavirus-related distribution included in gross income for the year of the distribution. The qualified individual will report the amount of the retribution on Form 8915-E (which will be filed with the individual's federal income tax return, if applicable).

If a qualified individual includes a coronavirus-related distribution in gross income in the year of the distribution and recontributes the distribution to an eligible retirement plan after the timely filing of the individual's federal income tax return for the year of the distribution (that is, after the due date, including extensions), the individual will need to file an amended federal income tax return for the year of the distribution. The qualified individual will need to file a revised Form 8915-E (with his or her amended federal income tax return) to report the amount of the retribution and should reduce his or her gross income by the amount of the retribution, but not in an amount exceeding the amount of the coronavirus-related distribution.

Example 1. Taxpayer B receives a \$45,000 distribution from a § 403(b) plan on November 1, 2020. Taxpayer B is a qualified individual and treats the distribution as a coronavirus-related distribution. Taxpayer B receives no other coronavirus-related distribution from any eligible retirement plan. Taxpayer B recontributes \$45,000 to an IRA on March 31, 2021. Taxpayer B reports the retribution on Form 8915-E and files the 2020 federal income tax return on April 10, 2021. For Taxpayer B, no portion of the coronavirus-related distribution is includible as income for the 2020 tax year.

Example 2. The facts are the same as in Example 1 of this section 4.D, except that Taxpayer B timely requests an extension of time to file the 2020 federal income tax return and makes a retribution on August 2, 2021, before filing the 2020 federal income tax return. Taxpayer B files the 2020 federal income tax return on August 10, 2021. As in Example 1, no portion of the coronavirus-related distribution is includible in income for the 2020 tax year because Taxpayer B made the retribution before the timely filing of the 2020 federal income tax return.

Example 3. Taxpayer C receives a \$15,000 distribution from a governmental § 457(b) plan on March 30, 2020. Taxpayer C is a qualified individual and treats the distribution as a coronavirus-related distribution. Taxpayer C elects out of the 3-year ratable income inclusion on Form 8915-E and includes the entire \$15,000 in gross income for the 2020 taxable year. On December 31, 2022, Taxpayer C recontributes \$15,000 to the § 457(b) plan. Taxpayer C will need to file an amended federal income tax return for the 2020 tax year to report the amount of the retribution and reduce the gross income by \$15,000 with respect to the coronavirus-related distribution included on the 2020 original federal income tax return.

E. Tax treatment for year of recontribution of a coronavirus-related distribution made to a taxpayer who uses the 3-year ratable income inclusion method

As explained above, a qualified individual is permitted to include a coronavirus-related distribution in income ratably over a 3-year period. If a qualified individual includes a coronavirus-related distribution ratably over a 3-year period and the individual recontributes any portion of the coronavirus-related distribution to an eligible retirement plan at any date before the timely filing of the individual's federal income tax return (that is, by the due date, including extensions) for a tax year in the 3-year period, the amount of the recontribution will reduce the ratable portion of the coronavirus-related distribution that is includible in gross income for that tax year. See section 4.F of this notice for recontributions that affect income inclusion in other tax years.

Example 1. Taxpayer D receives \$75,000 from a section 401(k) plan on December 1, 2020. Taxpayer D is a qualified individual and treats the \$75,000 distribution as a coronavirus-related distribution. Taxpayer D uses the 3-year ratable income inclusion method for the distribution. Taxpayer D makes one recontribution of \$25,000 to the section 401(k) plan on April 10, 2022. Taxpayer D files the 2021 federal income tax return on April 15, 2022. Without the recontribution, Taxpayer D should include \$25,000 in income with respect to the coronavirus-related distribution on each of D's 2020, 2021, and 2022 federal income tax returns. However, as a result of the recontribution to the section 401(k) plan, Taxpayer D should include \$25,000 in income with respect to the coronavirus-related distribution on the 2020 federal income tax return, \$0 in income with respect to the coronavirus-related distribution on the 2021 federal income tax return, and \$25,000 in income with respect to the coronavirus-related distribution on the 2022 federal income tax return.

Example 2. The facts are the same as in Example 1 of this section 4.E, except that Taxpayer D recontributes \$25,000 to the section 401(k) plan on August 10, 2022. Taxpayer D files the 2021 federal income tax return on April 15, 2022, and does not request an extension of time to file that federal income tax return. As a result of the recontribution to the section 401(k) plan, Taxpayer D should include \$25,000 in income with respect to the coronavirus-related distribution on the 2020 federal income tax return, \$25,000 in income with respect to the coronavirus-related distribution on the 2021 federal income tax return, and \$0 in income with respect to the coronavirus-related distribution on the 2022 federal income tax return.

F. Recontributions of a coronavirus-related distribution may be carried back or forward when using the 3-year ratable income inclusion

If a qualified individual using the 3-year ratable income inclusion method recontributes an amount of a coronavirus-related distribution for a tax year in the 3-year period that exceeds the amount that is otherwise includible in gross income for that tax year, as described in section 4.E of this notice, the excess amount of the recontribution is permitted to be carried forward to reduce the amount of the coronavirus-related distribution that is includible in gross income in the next tax year in the 3-year period. Alternatively, the qualified individual is permitted to carry back the excess amount of the recontribution to a prior taxable year or years in which the individual included income attributable to a coronavirus-related distribution. The individual will need to file an amended federal income tax return for the prior taxable year or years to report the amount of the recontribution on Form 8915-E and reduce his or her gross income by the excess amount of the recontribution.

Example. Taxpayer E receives a distribution of \$90,000 from his or her IRA on November 15, 2020. Taxpayer E is a qualified individual and treats the distribution as a coronavirus-related distribution. Taxpayer E ratably includes the \$90,000 distribution in income over a 3-year period. Without any recontribution, Taxpayer E will include \$30,000 in income with respect to the coronavirus-related distribution on each of the 2020, 2021, and 2022 federal income tax returns. Taxpayer E includes \$30,000 in income with respect to the coronavirus-related distribution on the 2020 federal income tax return. Taxpayer E then recontributes \$40,000 to an IRA on November 10, 2021 (and makes no other recontribution in the 3-year period). Taxpayer E is permitted to do either of the following:

Option 1. Taxpayer E includes \$0 in income with respect to the coronavirus-related distribution on the 2021 federal income tax return. Taxpayer E carries forward the excess recontribution of \$10,000 to 2022 and includes \$20,000 in income with respect to the coronavirus-related distribution on E's 2022 federal income tax return.

Option 2. Taxpayer E includes \$0 in income with respect to the coronavirus-related distribution on the 2021 tax return and \$30,000 in income on the 2022 federal income tax return. Taxpayer E also files an amended federal income tax return for 2020 to reduce the amount included in income as a result of the coronavirus-related distribution to \$20,000 (that is, the \$30,000 original amount includible in income for 2020 minus the remaining \$10,000 recontribution that is not offset on either the 2021 or 2022 federal tax return).

G. Special rule for 3-year ratable income inclusion method for coronavirus-related distributions

If a qualified individual dies before the full taxable amount of the coronavirus-related distribution has been included in gross income, then the remainder must be included in gross income for the taxable year that includes the individual's death.

H. Coronavirus-related distributions will not be treated as a change in substantially equal periodic payments

In the case of an individual receiving substantially equal periodic payments from an eligible retirement plan, the receipt of a coronavirus-related distribution from that plan will not be treated as a change in substantially equal payments as described in § 72(t)(4) merely because of the coronavirus-related distribution.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

©2021 Lincoln National Corporation

LincolnFinancial.com/Retirement

Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates.

Affiliates are separately responsible for their own financial and contractual obligations.

PAD-3447899-021021
 POD 2/21



Lincoln Financial Group® affiliates, their distributors, and their respective employees, representatives and/or insurance agents do not provide tax, accounting or legal advice. Clients should consult their own independent advisor as to any tax, accounting or legal statements made herein.

This material is provided by The Lincoln National Life Insurance Company, Fort Wayne, IN, and, in New York, Lincoln Life & Annuity Company of New York, Syracuse, NY, and their applicable affiliates (collectively referred to as "Lincoln"). This material is intended for general use with the public. Lincoln does not provide investment advice, and this material is not intended to provide investment advice. Lincoln has financial interests that are served by the sale of Lincoln programs, products, and services.