Common Tax Questions on CARES Act Withdrawals

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to help those who have been financially impacted by the pandemic.

The CARES Act allows "qualified individuals" to withdraw money from an eligible workplace retirement plans [such as a 401(k) or 403(b)]. Nonqualified and 457(f) plans are not eligible under the CARES Act.

Affected, qualified individuals with accounts in workplace retirement plans can take an aggregate "CARES Act distribution" from January 1, 2020, to December 30, 2020, of up to $100,000 from all retirement accounts, without incurring the usual 10% early withdrawal penalty. Any taxable income for such withdrawals may be spread evenly over a three-year period, unless the individual elects otherwise.

If you have taken a CARES Act withdrawal or are considering taking one before the deadline, it's important to understand how this might affect your taxes.

Q. What are the income tax benefits of a CARES Act withdrawal, and how do I elect them?

A. A CARES Act withdrawal is not subject to the 10% early withdrawal penalty. As an additional benefit, any taxable income may be spread evenly over a three-year period, unless you elect otherwise. If you've taken a CARES Act withdrawal, you'll need to download IRS Form 8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments from IRS.gov, then complete the form and submit it with your income tax return. The form includes information about the 10% early withdrawal waiver, your ability to spread taxable amounts over three years, and the option to repay prior CARES Act withdrawals.

Q. What if my plan did not offer CARES Act withdrawals?

A. If you took a withdrawal from your plan in 2020 that wasn't considered a CARES ACT withdrawal under your plan rules, the IRS will treat it as a CARES Act withdrawal as long as you're a qualified individual. If you qualify and took the withdrawal before the deadline (December 30, 2020, close of market), use IRS Form 8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments, regardless of whether your plan offered this type of withdrawal.

Q. What if I took a withdrawal before the CARES Act passed, but I was eligible?

A. A qualified individual may designate a 2020 withdrawal as a CARES Act distribution using IRS Form 8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments. This includes withdrawals taken before the CARES Act passed on March 27, 2020, and other eligible withdrawals.

Q. Will the 10% early withdrawal penalty automatically be waived when I take a CARES withdrawal?

A. No. To receive the CARES Act income tax benefits, you must first download IRS Form 8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments from IRS.gov, complete the form, then submit it with your income tax return. The form includes the 10% early withdrawal waiver, your ability to spread taxable amounts over three years, and the option to repay prior CARES Act withdrawals.

Q. Can I repay the amount of a CARES Act withdrawal?

A. Yes, you can repay part or all of a prior CARES Act withdrawal if you repay it to an eligible retirement plan within three years of the day after the date of receipt. The amount of any repayment will be treated as a rollover contribution and cannot exceed the amount of the original withdrawal.

Q. What information will Fidelity provide to report my CARES Act withdrawal?

A. In January 2021, Fidelity will provide you with Form 1099-R: Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., which will identify all the relevant information for any distributions. You will use this form to complete the required information on IRS Form 8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments.

Q. What is the eligibility criteria for a CARES Act withdrawal?

A. Only qualified individuals are eligible to obtain CARES Act withdrawals. The IRS expanded the definition of "qualified individual" in June 2020 to include participants whose household member experienced adverse financial consequences, including additional causes of financial adversity. You are considered a qualified individual if:

1. You, your spouse, or your dependent (as defined in Internal Revenue Code section 152) is diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (both referred to as "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
2. You have experienced adverse financial consequences because:
   a. you, your spouse, or a member of your household was quarantined, furloughed, or laid off, or had work hours reduced due to COVID-19;
   b. you, your spouse, or a member of your household was unable to work due to lack of childcare due to COVID-19;
   c. a business owned or operated by you, your spouse, or a member of your household closed or reduced hours due to COVID-19; or
   d. you, your spouse, or a member of your household had a reduction in pay (or self-employment income) due to COVID-19 or had a job offer rescinded or start date for a job delayed due to COVID-19.

   Note: A "member of your household" is someone who shares your principal residence.

Fidelity does not provide legal or tax advice, and the information provided is general in nature and should not be considered legal or tax advice. Consult an attorney, tax professional, or other advisor regarding your specific legal or tax situation.

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