

Borrowing from Retirement Accounts and 401(k) Plans During COVID-19 Economic Crisis

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If you or your business has been adversely financially impacted by the COVID-19 pandemic and the associated economic downturn being experienced all across the globe, there may be some available relief. The recently enacted CARES Act revised some of the restrictions ordinarily in place on borrowing and making withdrawals from retirement plan accounts during the economic crisis.

IRA Accounts

You may withdraw up to \$100,000 from your IRA account without incurring the regular 10% early withdrawal penalty. You will still owe income tax on that withdrawal, taxed at your ordinary income tax rate. You must have been impacted by the coronavirus in order to qualify for the penalty waiver.

In addition, you can pay the taxes you will owe on the withdrawal pro-rata over the next three years, at 1/3 per year or upon your selected timing, OR you may return the money to your IRA account whenever you want over the next three years to avoid owing the taxes pro-rata. In addition, there is no required minimum distribution required for 2020 from an IRA account even if you turned 70.5 in 2019.

401(k) Plans

The CARES Act has expanded the size of the loan you can take from your 401(k) plan or similar retirement plan from the previous limit of \$50,000 to \$100,000. The 10% penalty has been waived, just like for IRA owners. However, unlike an IRA, funds withdrawn from a 401(k) (or similar plans such as 403(b) or 45(b) plan), can be taken as either a distribution or a loan against your account.

If you choose to take a distribution from a 401(k), you also have three years to repay the distribution to minimize or eliminate the income tax that you would owe on the distribution.

In either case, you should consult with your financial adviser, accountant, or tax attorney to get specific advice that works for your particular circumstances.

