Important information for CRDs

For qualified individuals,[1] the Coronavirus Aid, Relief, and Economic Security (CARES) Act permitted withdrawals from January 1, 2020, through December 30, 2020, to be considered coronavirus-related distributions (CRDs). The maximum that you can designate as a CRD is $100,000. You have this option, regardless of whether or not your plan added a CRD provision.

This summary provides general guidance on the federal tax treatment and reporting of CRDs. Consult your financial professional or tax advisor, or refer to IRS Notice 2020-50 at IRS.gov for additional details.

Any tax-related discussion contained in this publication, including any attachments, is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding any tax penalties or (ii) promoting, marketing, or recommending to any other party any transaction or matter addressed herein. Please consult your independent legal counsel and/or professional tax advisor regarding any legal or tax issues raised in this publication.

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CRDs—taxes and repayment

Under the CARES Act, you may repay a CRD to an eligible retirement plan (including the plan), if you're eligible to make rollover contributions or contributions to an IRA anytime within a three-year period, beginning on the day after the day you take the CRD. Each CRD you take will have a separate three-year repayment period. Repayment can be in one lump sum or multiple repayments over the three-year period.

Only the amount of the distribution can be repaid. To submit repayments to your plan at John Hancock, complete the CRD repayment form, available at **myplan.johnhancock.com**, and follow the instructions for acceptable repayment methods.

If the form is unavailable to you, contact John Hancock for additional information.

CRD taxes and repayment

Part or all of your CRD(s) may be taxable income. When you file your federal income taxes, you must report your CRD(s) on Form 8915-E. The pretax portion of your CRD(s) must be included in your taxable income when you file your federal income-tax return. (State income tax may also apply; check your state income-tax forms for more information.)

You have two options for including the pretax portion of your CRD(s) for federal income tax:

One-year income inclusion—You may include the entire amount of the taxable portion of your CRD(s) in your income in 2020.

Three-year ratable income inclusion—You may include the taxable portion of your CRD(s) ratably (one-third each year) over a three-year period that begins with 2020 (i.e., 2020, 2021, and 2022). If you choose this method, it's important that you save your 2020 Form 1099-R).[2]

Whichever option you elect, it applies to all your CRDs and your election is irrevocable (i.e., you can't change your option afterward).

Generally, if you take money from your retirement plan before age 59½, you owe a 10% early withdrawal tax penalty. This penalty **doesn't apply to your CRD**. If you're under the age of 59½, your Form 1099-R will indicate that the 10% penalty may apply; however, by including Form 8915-E when you file your federal income-tax return, the IRS will know the 10% penalty doesn't apply.

Tax treatment of repayment

CRD repayment using one-year income inclusion

This payback method assumes that you've opted to use the one-year income inclusion **and** that you pay back any portion of your CRD(s) at any time during the applicable three-year repayment period.

- If repayment occurs before you file your tax return for 2020, the amount of the repayment of the pretax portion of your CRD reduces your taxable income for 2020. You'll report the amount of your recontribution (repayment) on Form 8915-E, which you'll file with your federal income-tax return.
- If repayment occurs after you file your tax return for 2020, you'll need to file an amended 2020 tax return. You'll need to file a revised Form 8915-E with your amended return to report the CRD repayment. The amount of the repayment of the pretax portion of your CRD reduces your taxable income for 2020.

Examples

Taxpayer A receives a $45,000 CRD (all pretax; no Roth) on November 1, 2020.
Taxpayer A pays back $45,000 on March 31, 2021.
Taxpayer A reports the repayment on Form 8915-E and files the 2020 federal income-tax return on April 10, 2021.
For Taxpayer A, no portion of the CRD should be included as income for the 2020 tax year.

Taxpayer B receives a $15,000 CRD (all pretax; no Roth) on November 10, 2020.
Taxpayer B elects out of the three-year ratable income inclusion and includes the entire $15,000 in gross income for the 2020 taxable year.
On December 31, 2022, Taxpayer B pays back $15,000.
Taxpayer B will need to file an amended federal income-tax return for the 2020 tax year to report the amount of the repayment and reduce their 2020 gross income by $15,000.

These examples are for illustrative purposes only.

CRD repayment using three-year ratable income inclusion

This payback method assumes that you've opted to report your CRD income ratably (in equal payments) over three years, **and** repayment of any portion of your CRD(s) is made during the applicable three-year repayment period.

The repayment will reduce the ratable portion of the CRD that's included in your gross income for the tax year of your filed federal income-tax return.

Examples

Taxpayer C receives a $75,000 CRD (all pretax; no Roth) on December 1, 2020, and uses the three-year ratable income inclusion method.

Taxpayer C makes one repayment of $25,000 on April 10, 2022.

Taxpayer C files their 2021 federal income-tax return on April 15, 2022. Without the repayment, Taxpayer C should include $25,000 in income on each of their 2020, 2021, and 2022 federal income-tax returns.

As a result of the recontribution, however, Taxpayer C should include $25,000 in income on their 2020 federal income-tax return, $0 in income on their 2021 federal income-tax return, and $25,000 in income on their 2022 federal income-tax return.

Same facts as above, except that Taxpayer C repays $25,000 on August 10, 2022.

Taxpayer C files their 2021 federal income-tax return on April 15, 2022.

As a result, Taxpayer C should include $25,000 in income on their 2020 federal income-tax return, $25,000 in income on their 2021 federal income-tax return, and $0 in income on their 2022 federal income-tax return.

These examples are for illustrative purposes only.

Repayments of a CRD may be carried back or forward when using the three-year ratable income inclusion.

This payback method assumes that you've opted to report your CRD income ratably (in equal payments) **and** that the repayment amount of the taxable portion of your CRD exceeds the amount that's included in your gross income for the tax year (i.e., you paid back more than you included in your gross income on your federal tax return). In this case:

- The excess amount of the repayment can be **carried forward** to the next taxable year to reduce the amount of the CRD that you need to include in your gross income; OR
- The excess amount of the repayment can be **carried back** to a prior taxable year or years in which you included income attributable to a CRD. In this case, you'll need to file an amended federal income-tax return for the prior taxable year or years to report the amount of the repayment. This should be recorded on Form 8915-E and will reduce your taxable income.

Example

Taxpayer D receives a CRD of $90,000 (all pretax; no Roth) on November 15, 2020, and includes it ratably in income over a three-year period.

Without any repayment, Taxpayer D will include $30,000 in income on each of their 2020, 2021, and 2022 federal income-tax returns.

Taxpayer D includes $30,000 in income on their 2020 federal income-tax return, then repays $45,000 on November 10, 2021.

Taxpayer D is permitted to either:

Option 1: Include $0 in income on their 2021 federal income-tax return, carry forward the excess repayment of $15,000 to 2022, and include $15,000 (instead of $30,000) in income on their 2022 federal income-tax return.

Option 2: Include $0 in income on their 2021 federal income-tax return and $30,000 in income on their 2022 federal income-tax return. Taxpayer D then files an amended federal income-tax return for 2020 to reduce the amount included in income, as a result of the CRD, to $15,000.

This example is for illustrative purposes only.

How your repayment may affect retirement savings

A CRD, like any withdrawal, reduces your account balance; however, you can minimize the effect of this reduction by repaying the CRD.

Account balance	After 3 years	After 10 years	After 20 years	After 30 years
$25,000 CRD taken and paid back within 3-year period	$35,358	$81,731	$200,522	$439,252
$25,000 CRD taken and not paid back	$8,367	$36,369	$109,159	$255,643

This is a hypothetical mathematical illustration only that represents no particular investment and does not account for taxes. Figures are based on assumptions as set out, and individual circumstances may vary.

Assumes a beginning balance of $25,000, a salary of $50,000 with a 5% monthly contribution rate, and a 7% annual rate of return compounded monthly. CRD repayment over three years. There is no guarantee that any investment objective will be met.

1 A qualified individual is a participant, their spouse, or a dependent who has been diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a Centers for Disease Control and Prevention-approved test. In addition, a qualified individual is also an individual who, due to such virus or disease, experiences adverse financial consequences resulting from the individual, the individual's spouse, or a member of the individual's household (defined as someone who shares the individual's principal residence) being quarantined, being furloughed or laid off, or having work hours reduced due to COVID-19; being unable to work due to lack of childcare due to COVID-19; closing or reducing hours of a self-owned or self-operated business due to COVID-19; having pay or self-employment income reduced due to COVID-19; or having a job offer rescinded or start date for a job delayed due to COVID-19. **2** For any distribution containing Roth 401(k) contributions, including CRDs, the earnings on the Roth portion of the withdrawal are not includible in income if you are at least age of 59½ and have contributed to your Roth account for at least five years. Otherwise, the distribution will generally be considered "unqualified," and the earnings portion of the Roth 401(k) is includible in income.

MS-P42969 9/20-42978
OA Version

MGR0825201309177 | 21151