
U.S. Congress Approves Coronavirus, Aid, Relief and Economic Security (CARES) Act

The U.S. Congress has approved the Coronavirus, Aid, Relief and Economic Security (CARES) Act, and the bill was signed by President Trump on March 27, 2020. Although the Act is primarily designed to provide significant tax and non-tax stimulus opportunities to businesses and individuals, it also contains provisions allowing greater access to retirement plan benefits at lower tax costs for participants. This memorandum summarizes these provisions.

CORONAVIRUS RELATED DISTRIBUTIONS

The CARES Act waives the 10% early withdrawal penalty tax under Internal Revenue Code Section 72(t) on early withdrawals of up to \$100,000 from a retirement plan or IRA to a participant for a coronavirus related distribution. A “coronavirus related distribution” means any distribution made on or after January 1, 2020 and before December 31, 2020 to an individual:

- who is diagnosed with a disease designated as coronavirus by a test approved by the Centers for Disease Control and Prevention;
- whose spouse or dependent is diagnosed with such virus or disease by such a test;
- who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of child care due to such virus or disease, closing or reducing hours of a business owned or operated by the individual due to such virus or disease; or
- for other factors as determined by the Secretary of the Treasury.

The administrator of the plan may rely on an employee’s certification that the employee satisfies the conditions above in determining whether a distribution is a coronavirus related distribution.

A participant who is eligible to take a coronavirus related distribution may pay tax on the income from the distribution ratably over a three-year period.

A participant who is eligible to take a coronavirus related distribution may also repay the distribution to the plan (or to another plan as a “trust-to-trust” transfer) within three years of the distribution. Repayments will not be subject to the retirement plan contribution limits.

PLAN LOANS

With respect to a plan loan made to a participant who is eligible to take a coronavirus related distribution, the CARES Act:

- doubles the current retirement plan loan limit to the lesser of \$100,000 or 100% of such participant’s vested account balance; and
- permits participants who have an outstanding loan or loans with a repayment date from the date of enactment of the CARES Act through December 31, 2020, to delay their loan repayment(s) for up to one year.

PLAN AMENDMENTS

If your plan:

- currently permits early in-service distributions and/or loan distributions, the Act allows you to implement these revisions effective immediately, or
- does not currently permit early in-service distributions and/or loans, the Act also allows you to implement these provisions effective immediately,

provided that the plan is amended on or before the last day of the first plan year beginning on or after January 1, 2020 (or later if prescribed by the Treasury Secretary). If your plan implements a coronavirus related distribution, you should notify us immediately so that we may prepare the necessary amendment to your plan document.

CONTACT US

Please feel free to contact Charles M. Lax, William E. Sigler, or Marc S. Wise if you have any questions or comments related to coronavirus related distributions.

Charles M. Lax
(248) 827-1877
CLax@maddinhauser.com

William E. Sigler
(248) 827-1865
WSigler@maddinhauser.com

Marc S. Wise
(248) 827-1883
MWise@maddinhauser.com

© Maddin Hauser Roth & Heller P.C. All Rights Reserved. | 248.354.4030 | 248.354.1422 Fax