Labor & Employment Issues
Client Alert
Pitta LLP
For Clients
April 3, 2020 Edition

CARES Act Frees Up Retirement Plan Distributions for COVID-19 Affected Participants

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act (the "CARES Act") which provides relief to taxpayers affected by the novel coronavirus (COVID-19). Amongst its numerous provisions, the CARES Act permits eligible retirement plans to allow a qualified individual to take a coronavirus-related distribution. We are available to answer your questions regarding the CARES Act and discuss its immediate impact on your plans.

Distribution taken by a qualified individual from an eligible retirement plan that occurs between January 1, and December 31, 2020 will be treated as a "Coronavirus-related Distribution". A "Qualified Individual" is an individual:

(i) who is diagnosed with SARS-CoV-2 or with Coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention; or
(ii) whose spouse or dependent has been diagnosed with such virus or disease by such a test; or
(iii) who experiences adverse financial consequences as a result of (a) being quarantined, (b) being furloughed or laid off or having work hours reduced due to such virus or disease, (c) being unable to work due to lack of child care due to such virus or disease, or (d) the closing or reduction of hours of operation of a business owned or operated by the individual due to such virus or disease; or
(iv) other factors as determined by the Secretary of the Treasury.

The CARES Act provides, in pertinent part, that:

- Plan administrators may rely on an employee's certification that the employee satisfies one of the four conditions set forth above in determining that the requested distribution is a Coronavirus-related Distribution.
- A Coronavirus-related Distribution of up to $100,000 from a qualified retirement plan will be exempt from the 10% early distribution tax for those under age 59 ½.
- Any amount required to be included in a Qualified Individual's gross income from a Coronavirus-related Distribution may be recognized ratably over a three-year taxable period, unless the taxpayer elects otherwise.
- At any time during the ensuing 3-year period starting the day after a Coronavirus-related Distribution is received, a Qualified Individual may repay all or a part of the amount of the Distribution in which case the Coronavirus-related Distribution, to the extent of the amount repaid, will be treated as a rollover distribution as to which the Qualified Individual will not be required to recognize any income.
- Coronavirus-related Distributions paid to a Qualified Individual will be exempt from the mandatory 20% federal tax withholding requirement.
- For a limited time (*i.e.*, between March 27, 2020 and September 23, 2020), a Qualified Individual may request a loan of up to $100,000 from a qualified employer plan.

- Any due date for repayment of a currently outstanding loan from a qualified employer plan arising between March 27, 2020 and December 31, 2020 is delayed for one (1) year and the due date for any subsequent repayments will be adjusted to reflect the delay and any interest accruing during such delay.
- Required minimum distribution (RMD) rules are temporarily waived for 2020.

The CARES Act provides for a remedial amendment period for amending plans until the last day of the first plan year beginning on or after January 1, 2022 (for certain governmental plans, substitute January 1, 2024, for January 1, 2022).

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