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The CARES Act

On March 27, 2020, H.R. 748 the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), was signed into law. This new law provides emergency assistance and over \$2 trillion in aid to those that have been directly or indirectly afflicted by the coronavirus (COVID-19).

The CARES Act will prove to be impactful for individuals, families, and businesses. As your TPA, PenServ will be working to ensure that your plan is compliant with the CARES Act and all other applicable laws. During these times of turmoil, you can count on us to provide the attention and care that you and your employees deserve.

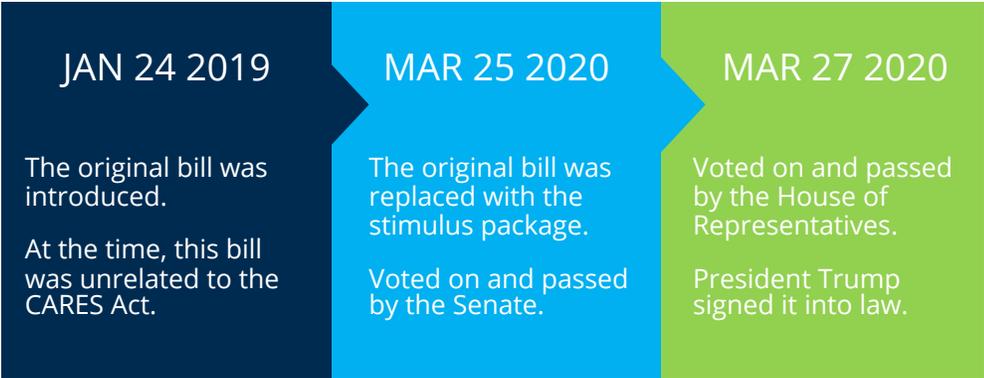
While there are many provisions to be discussed within this stimulus package, this Newsletter will focus on the sections that specifically impact retirement plans. Please contact your Plan Manager with any questions or for additional information.

As always, thank you for your business!



[READ THE CARES ACT](#)
[CLICK HERE](#)

H.R.748 - Timeline of Events



Coronavirus-Related Distributions

A Coronavirus-Related Distribution (CRD) of up to \$100,000 in the aggregate for any taxable year may be made from all retirement plans in which an individual participates (IRA, QP, 403(b), or governmental 457(b)), if applicable.

What is a CRD?

A CRD is a distribution made on or after 1/1/2020 and before 12/31/2020 to an individual:

- Who is diagnosed with COVID-19 or SARS-CoV-2 by a test approved by the Centers for Disease Control and Prevention;
- Whose spouse or dependent is diagnosed with COVID-19 or SARS-CoV-2;
- Who experienced an adverse financial consequence as a result of being quarantined, furloughed or laid off, or having work hours reduced due to COVID-19 or SARS-CoV-2; or
- Any other factors determined by IRS/Treasury.

How does one prove the request qualifies as a CRD?

The administrator for any employer retirement plan may rely on employee certification that one or more of the above criteria has been satisfied.

For CRDs from IRAs, the custodian/trustee/issuer would receive the certification on the IRA distribution form. IRS will address reporting at a later time.

How are taxes handled?

A participant will include the amount received into income, spread ratably over a 3-year period. While the 3-year taxation is the default, taxpayers may elect to pay taxes on the full amount for the year of distribution. It is unclear at this time whether a new Form 8915 will be added for this type of distribution and any repayments, should they occur. IRS will need to weigh in.

The CRD will not be treated as an eligible rollover distribution for purposes of withholding, 402(f) notices, and rollover rules. Therefore, no withholding need apply to the distribution.

However, the CRD amount may be repaid as a rollover into an eligible retirement plan (IRA, QP, 403(b) or governmental 457(b)) that can receive rollovers within 3 years, measured from the day after the CRD was received. Again reporting is unclear at this time.

Will these distributions be subject to an early withdrawal penalty?

The 10% additional tax on early distributions will not apply to a CRD.

The Provisions discussed in this Newsletter can be found in the following sections of the CARES Act:

TITLE II – ASSISTANCE FOR AMERICAN WORKERS, FAMILIES, BUSINESSES

- Subtitle B – Rebates And Other Individual Provisions
 - Sec. 2202. Special rules for use of retirement funds
 - Sec. 2203. Temporary waiver of required minimum distribution rules for certain retirement plans and accounts.

Loans from Employer Plans

For eligible individuals (see above criteria for CRDs), there is an increase in permissible loan amounts from the lesser of 50% of the participant's account balance or \$50,000, to the lesser of 100% or \$100,000 of the participant's account balance. This applies to loans taken within the 180-day period beginning on the date of enactment (March 27, 2020).

There is a 1-year suspension on loan repayments for any loan taken on the date of enactment through December 31, 2020. Accrued interest on the loan will continue to accrue for the period that the loan payments were delayed.

The one year suspension shall not be counted toward the maximum 5-year term of the loan. In other words, a 5-year loan will actually run six years.

Timing of Amendments

Plan documents are required to be amended for CRDs by December 31, 2021, or December 31, 2023 for governmental plans.

Plan amendments for loan provisions are required by December 31, 2022, or December 31, 2024 for governmental plans.

However, retirement plans may adopt these rules immediately.

IRS may provide for a later date for both amendments.

Waiver of RMD for All Plans

Just as we are starting to get more guidance on the SECURE Act RMD provisions...more changes!

For Calendar Year 2020, RMD's required under an IRA, 403(b), qualified plan or governmental 457(b) may be waived. This provision applies not only to individuals impacted by the COVID-19 epidemic, but rather for all participants in these plans.

Special Rule for Required Beginning Dates (RBDs) that occurs in 2020:

- For 2019 RMDs, where the participant delayed taking their first RMD until April 1, 2020 (their required beginning date), and had not received the distribution before 1/1/2020, such amounts are also waived. If the taxpayer received the RMD before 1/1/2020, it is not waived and therefore not eligible to roll back to the IRA or Employer Plan. We anticipate a roll-back provision for distributions taken after 1/1/2020 if it occurs within 60 days.
- If a beneficiary is subject to the new 5-year rule for death distributions, the year 2020 being waived will not count as a reduction in the 5-year period. There was no such language inserted for those subject to the 10-year rule.

The amendments made by this section apply for calendar years beginning after 12/31/2019. Employer plan amendments will generally be required by 12/31/2022 (12/31/2024 for governmental plans). Remember, IRA plans cannot be amended until the IRS updates their model IRA forms.

Stay tuned for more information! We are scheduling webinars and will notify our clients when the times/dates are verified.



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