

IRS Provides Updated Guidance for Retirement Plans

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The IRS says anyone whose household family member has lost pay during the COVID-19 pandemic is now eligible for a retirement account payout.

The federal government previously said only a person that has suffered a layoff or pay reduction was a "qualified individual" to take one of the early COVID-19 related distributions established by the CARES Act in March. The act allowed for the early payouts of up to a total of \$100,000 through December 31, and waives the standard 10% early withdrawal charge.

Now there is [updated guidance](#) stating that anyone who has a household family member that has had a pay reduction or job loss of some kind is eligible for the early distribution. Under the initial CARES Act legislation, a qualified individual was defined as an individual who meets one of the following requirements:

- The individual, the individual's spouse, or the individual's dependent has been diagnosed with COVID-19.
- The individual has experienced adverse financial consequences as a result of being quarantined, being furloughed or laid off, or having work hours reduced due to COVID-19.
- The individual has experienced adverse financial consequences as a result of being unable to work due to lack of childcare due to COVID-19.
- The individual has experienced adverse financial consequences as a result of closing or reducing hours of a business owned or operated by the individual due to SARS-CoV-2 or COVID-19.

The latest notice from the IRS expands this list of qualified individual to include:

- The participant whose spouse or a member of his/her household has experienced adverse financial consequences as a result of being quarantined, being furloughed or laid off, or having work hours or pay reduced because of COVID-19.
- The participant whose spouse or a member of the household has experienced COVID-19-related financial consequences as a result of being unable to work due to childcare unavailability.
- The participant who has had a job offer rescinded or a new job's start date delayed due to COVID-19 or has suffered a reduction in pay or self-employment income due to COVID-19.
- The participant whose spouse or a member of the household has had a job offer rescinded or a new job's start date delayed due to COVID-19.

For these qualified individuals, the CARES Act includes financial assistance with the following expanded access to retirement funds:

- A temporary increase of the plan loan limit to allow loans up to the lesser of the vested account balance under the plan or \$100,000 for loans requested during the 180-day period following the signing of the act.
- A one-year delay for any plan loan repayment due on or before December 31. Under this new guidance there is also now a safe harbor that plan sponsors can now follow for the administration of the delay in loan repayments due through the end of 2020. The safe harbor provides that the term of the loan may be extended for up to one year from the date the loan was originally due to be repaid.
- The act also provides an opportunity to request a distribution of up to \$100,000 under a qualified retirement plan and individual retirement account.
- In addition, the act includes an exception to the otherwise applicable 10% penalty for an early distribution under a qualified retirement plan and individual retirement account.
- The individual taking a distribution can spread the reported income over three years for tax purposes and any amounts distributed under these special rules may be repaid at any time over the three-year period commencing with the date of distribution to avoid taxation.

Finally, the IRS also has clarified that the employer can rely on the employee certifications of qualified individual status unless the employer currently possesses actual knowledge to the contrary. In other words, the employer is not required to undertake any inquiry to verify the information provided by the employee.

If you have any questions about these issues and new deadlines, please [contact me](#).

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