WELLS FARGO Advisors

Key Qualified Retirement Plan Impacts of the 2020 CARES ACT

CARES Act | 2020

On March 27, 2020, the CARES Act (Coronavirus, Aid, Relief and Economic Security) was signed into law and as a result, there are some key impacts to Qualified Retirement Plans in 2020.

Below is a summary of the most notable Qualified Retirement Plan (QRP) changes:

Coronavirus Related Distributions

Additional tax of 10% early withdrawals under IRS Code 72(t) is waived and the mandatory 20% withholding tax is not required on coronavirus related distributions up to $100,000 from a retirement plan for a participant:

- Who is diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention
- Whose spouse or dependent is diagnosed with the above
- Who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of child care due to above, closing or reduced hours of a business owned or operated by the individual due to COVID-19
- With other factors as determined by the Treasury Secretary
- Who provides a self-certification that he or she is a qualified individual for purpose of special distribution and loan treatment. It's important to know that the plan sponsor can rely on the self-certification.

The legislation also allows the individuals to recognize the income from the distribution ratably over a three-year period and allows the amount distributed to be repaid back into the plan during the three year period assuming the distribution taken in 2020 meets one of the above situations. The repayments would not be subject to the retirement plan contribution limits.

Important Note: If the plan sponsor chooses, this may be allowed in your plan even if the hardship withdrawals are not currently available in the plan document. However, plan sponsors are also not required to allow these distributions. If this provision is enacted by the plan, the document must be amended no later than the last day of the first plan year beginning on or after January 1, 2022 unless the Treasury Secretary prescribes a later date.

Plan Loans	For individuals who meet the eligibility criteria for "coronavirus- related distributions" as described above: • Doubles the current retirement plan loan limits from $50,000 or 50% of participant's vested plan balance to $100,000 or 100% of vested plan balance, whichever is less. This applies for 180 days starting with 3/27/2020. • Individuals with an outstanding loan from their plan with a repayment due on or after the date of the CARES act enactment through 12/31/2020, can delay their loan repayment(s) for up to one year. The delay will be disregarded for purposes of the maximum term applicable to the loan. However, interest will continue to accrue during the delay and later payments will be adjusted to reflect the accrued interest. Important Note: If a plan sponsor chooses, this may be allowed in your plan even if the loan provisions are not currently available in the plan document. However, plan sponsors are also not required *to* allow these coronavirus-related loans. If this provision is enacted by the plan, the document must be amended no later than the last day of the first plan year beginning on or after January 1, 2022 unless the Treasury Secretary prescribes a later date.
Temporary Waiver of Required Minimum Distribution Rules (Section 2203)	Required minimum distributions are waived for calendar year 2020 for Defined Contribution Plans, including 401(k), 403(b), 457, and IRA based plans. This waiver does not apply to defined benefit plans. This allows participants and beneficiaries to keep funds in the retirement plans. If a beneficiary is taking distributions over a 5 year period, then 2020 will not count as a year in the distribution period.
Single Employer Defined Benefit (DB) Plan Funding Rules (Section 3608)	Gives companies more time to meet their funding obligations by delaying the due date to January 1, 2021 for any contribution otherwise due during 2020. The amount of the delayed contribution will be increased by interest accrued between the original due date and the new payment date. The Act also provides that a plan's status for benefits restrictions as of 12/31/2019, will apply throughout 2020, such that a plan sponsor may elect to treat the plan's adjusted funding target attainment percentage for the last plan year ending before 1/1/2020, as the adjusted funding target attainment percentage for plan years which include calendar year 2020.
Expansion of Department of Labor (DOL) Authority to postpone Certain Deadlines (Section 3607)	The Act provides the DOL with expanded authority to postpone certain deadlines under Employee Retirement Income Security Act (ERISA). In general, the legislation increased the circumstances to include a public health emergency declared by the Secretary of Health and Human Services under the Public Health Service Act.

IRS Tax Filing Deadline of April 15th Moved (Not part of CARES Act)	The IRS changed the Federal tax filing deadline from 4/15/2020 to 7/15/2020. All plans that have a 4/15/2020 deadline will now have until 7/15/2020 to make employer contributions. This also applies to businesses who operate on a fiscal year basis with a tax deadline of 4/15/2020 as well. Keep in mind this does not extend the deadline to refund any excess deferrals as that date remains 4/15/2020. It is always recommended to talk to your tax professional and your plan's third party administrator to determine the specific impact to your company and retirement plan.

Stay up to date

At Wells Fargo Advisors, we know that the changes to your Qualified Retirement Plan due to the CARES Act may leave you with questions. We welcome the opportunity to work with you and your legal and tax professionals and plan administrators to determine how these changes impact your retirement and estate planning goals.

This material is provided for informational purposes only. It is based on tax information and legislation as of March 2020. Investors need to make their own decisions based on their specific investment objectives, financial circumstances, and tolerance for risk.

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