IRS Provides Coronavirus Relief

Expands CARES Act Relief, Adds Clarifications

June 2020

KEY POINTS

- The IRS increased the categories of those eligible for coronavirus-related distributions and CARES Act loan relief to alleviate financial hardships resulting from coronavirus-related changes in income or employment.
- The guidance includes clarifications concerning the impact of the CARES Act on nonqualified deferred compensation plans.
- The guidance provides clarification on loan repayment suspensions permitted through the CARES Act.

On June 19, 2020, the Internal Revenue Service ("IRS") issued Notice 2020-50, which provides guidance for coronavirus-related distributions ("CRDs") and loans from retirement plans under the Coronavirus Aid, Relief and Economic Security ("CARES") Act.

While the guidance is new, and we continue to evaluate in more detail its significance, our attention has been drawn to the following three key areas described in more detail below:

- A significant expansion of those eligible for coronavirus-related distributions and CARES Act plan loan accommodations;
- The ability for employees receiving CRDs from a qualified plan to cancel deferrals to a nonqualified plan;
- A safe harbor for implementing loan repayment suspension.

Expanded eligibility categories for CARES Act retirement plan provisions

The CARES Act authorized special coronavirus-related distributions from retirement plans and IRAs, and allowed plans to offer new, temporary retirement plan loan accommodations. Availability of these new distributions and loan provisions was limited to Eligible Individuals.

Original eligibility criteria

The CARES Act defined Eligible Individuals as those who meet one of the following requirements:

- The individual has been 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; or

> The new eligibility criteria helps alleviate financial hardships resulting from coronavirus-related changes in income or employment.

- The individual's spouse or dependent (as defined in section 152 of the Internal Revenue Code) has been diagnosed with such virus or disease by such a test; or
- The individual has experienced adverse financial consequences as a result of any of the following: 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 childcare due to such virus or disease; or closing or reducing hours of a business owned or operated by the individual due to such virus or disease.

Newly added eligibility criteria

Importantly, the CARES Act also provided the Secretary of the U.S. Treasury (or its delegate) with the authority to provide for other factors that would make an individual eligible for a coronavirus-related distribution. The IRS exercised that authority in Notice 2020-50 and expanded the categories of Eligible Individuals to include individuals experiencing adverse financial consequences as a result of the following:

- Individuals having a reduction in pay (or self-employment income) due to COVID-19 or having a job offer rescinded or start date for a job delayed due to COVID-19;
- The individual's spouse or a member of the individual's household (as defined below) being quarantined, being furloughed or laid off, or having work hours reduced due to COVID-19, being unable to work due to lack of childcare due to COVID-19, having a reduction in pay (or self-employment income) due to COVID-19, or having a job offer rescinded or start date for a job delayed due to COVID-19; or
- Closing or reducing hours of a business owned or operated by the individual's spouse or a member of the individual's household due to COVID-19.

For purposes of applying these additional factors, a member of the individual's household is someone who shares the individual's principal residence. Note that it is not required that a household member be related to the plan participant or IRA owner.

Option for employees to cancel deferrals to nonqualified deferred compensation plans

A nonqualified deferred compensation plan subject to Internal Revenue Code ("IRC") § 409A may provide for a cancelation of an employee's deferral election, or such a cancelation may be made, due to an unforeseeable emergency or a hardship distribution.

The guidance provides that if a participant receives a distribution from an eligible retirement plan that constitutes a coronavirus-related distribution, that distribution will be considered a hardship distribution for purposes of IRC § 409A. As a result, a nonqualified deferred compensation plan may provide for a cancelation of an employee's deferral election, or such a cancelation may be made, due to a coronavirus-related distribution. Importantly, the deferral election must be canceled, not merely postponed or otherwise delayed.

Safe harbor for suspending loan repayments

To address the financial challenges created by the coronavirus pandemic, the CARES Act permits the suspension of loan repayments due to coronavirus-related circumstances. Eligible Individuals (defined and expanded in the same way as applicable to CRDs) may suspend loan repayments due between March 27, 2020, and December 31, 2020. Subsequent repayments of the loan must be adjusted to reflect the delay and any interest accruing during the delay. Also, the period of delay must be disregarded in determining whether the loan is within the 5-year period applicable to general purpose loans and for purposes of the level amortization requirements.

> T. Rowe Price continues to evaluate the IRS Notice and will further consider its implications for the servicing of T. Rowe Price's clients.

The guidance provides a safe harbor under which loan repayments must resume after the end of the suspension period, and the term of the loan may be extended by up to one year from the date the loan was originally due to be repaid. A plan satisfies these rules if the loan is reamortized and repaid in substantially level installments over the remaining period of the loan (for example, five years from the date of the loan, plus up to one year from the date the loan was originally due to be repaid).

The guidance provides an illustrative example whereby loan repayments are suspended from July 1, 2020, through December 31, 2020. Beginning in January 2021, loan repayments resume, with the amount of each monthly installment reamortized in order for the loan to be repaid by the date the loan originally would have been fully repaid, plus one year.

Next Steps

For specific information about how T. Rowe Price is administering CARES Act provisions, please contact your T. Rowe Price representative.

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