



FIDUCIARY QUESTION OF THE MONTH: DISTRIBUTIONS ALLOWABLE FOR EXPENSES RELATED TO COVID-19?

Question: Can we allow distributions from our 401(k) plan for expenses related to coronavirus/COVID-19?

Answer: The Coronavirus Aid, Relief, and Economic Security (CARES) Act became law on March 27, 2020, and includes provisions related to “coronavirus-related distributions.” The new law defines “coronavirus-related distributions” as any distribution from an eligible retirement plan made:

- On or after January 1, 2020, and before December 31, 2020,
- To an individual:
 - 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 such virus or disease by such a test, or
 - Who experiences adverse financial consequences as a result of 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 child care due to such virus or disease, closing or reducing hours of a business owned or operated by the individual due to such virus or disease, (or other factors as determined by the Secretary of the Treasury).

The plan administrator of the retirement plan can rely on the employee’s certification that the employee is eligible for a coronavirus-related distribution.

When a distribution is taken early from a 401(k) plan the distribution is generally subject to a 10% additional tax. The CARES Act provides that coronavirus-related distributions will not be subject to this additional 10% tax. The coronavirus-related distribution cannot exceed \$100,000. In addition, the participant can choose whether or not to repay the coronavirus-related distribution over the course of a three-year period (beginning on the day after the date the distribution was received) in one or more aggregate payments. If the participant chooses not to repay the coronavirus-related distribution, then the participant may choose to include in gross income the coronavirus-related distribution over a period of three years, instead of having to report the entire amount of the coronavirus-related distribution in the year in which it is taken.