TROMBINO PENSION ADMINISTRATORS, INC.

California Wildfire Disaster Relief

The Bipartisan Budget Act of 2018 provides expanded distribution and loan options for retirement plan participants who were victims of the recent California wildfires.

In February, Congress passed the Bipartisan Budget Act of 2018 ("Act"). The Act contains several retirement plan related provisions. Among the provisions are expanded distribution and loan options available to qualified plan participants who were victims of the recent California wildfires. To qualify, the participant's principal place of abode during the period from October 8, 2017 to December 31, 2017 must have been located in the California wildfire disaster area as declared by the President, and the individual must have sustained an economic loss due to the wildfires.

Distribution Relief – Under the Act, a retirement plan can allow a qualified participant to request a distribution from the Plan, not to exceed $100,000, even if they would not otherwise have a distribution option under the current terms of the Plan. The distribution must be made on or after October 8, 2017, and before January 1, 2019.

If the distribution is not repaid to the plan (see the following paragraph), the taxable portion of the distribution would be included in the participant's gross income, however the taxable portion could be spread ratably over the 3-taxable-year period beginning with the tax year of the distribution, unless the participant elects otherwise. Additionally, the 10% premature distribution penalty would not apply.

The Act allows the participant, who receives a qualified wildfire distribution, to avoid the taxation on the distribution by making one or more contributions, not to exceed the amount of the qualified distribution, to a retirement plan or IRA, within the 3-year period beginning on the day after the date on which the qualified distribution was received.

In addition, if a participant requested a hardship distribution between April 1, 2017 and January 14, 2018, the purpose of which was to purchase or construct a principal residence in the California wildfire disaster area, which was not purchased or constructed due to the wildfires, the funds may be redeposited into a retirement plan or IRA, in one or more contributions, provided the funds are contributed by June 30, 2018.

Loan Relief – The Act allows a retirement plan to increase the plan loan limits for qualified participants to 100% of their vested account, not to exceed $100,000. The loan must be requested before January 1, 2019.

In addition, if a qualified participant had an outstanding plan loan on or after October 8, 2017, and the final due date of the loan occurs during the period beginning on October 8, 2017 and ending on December 31, 2018, the final due date of the loan can be extended for 1 year. Payments and interest would need to be adjusted for the new term.

Plan Amendment – In most cases, when disaster relief is provided by a Congressional act, the IRS will require the retirement plan to be amended to include the provisions of the act that the plan utilizes. If a plan allows qualified participants to take advantage of some or all of the California wildfire relief provisions of the Act, the plan would be required to be amended by the last day of the plan year that begins on or after January 1, 2019. That would mean a December 31, 2019 adoption deadline, for example, for a calendar year plan.

Please do not hesitate to contact our office if you would like to discuss any of this information.

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