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IRS updated FAQs on retirement plan distribution rules, partial terminations (COVID-19)

The IRS updated a set of “frequently asked questions” (FAQs) that were issued to provide guidance regarding the implementation of certain retirement plan relief measures enacted in response to the coronavirus (COVID-19) pandemic.

The “Coronavirus Aid, Relief, and Economic Security Act” (CARES Act) (Pub. L. No. 116-136), enacted on March 27, 2020, allows special distribution options and rollover rules for retirement plans and IRAs, and for expanded permissible loans from certain retirement plans.

The IRS issued the [FAQs](#) as guidance to implement these CARES Act provisions.

New FAQ 15 (added July 30, 2020; text of which is provided immediately below) addresses partial plan termination determinations.

Q15. Are employees who participated in a business’s qualified retirement plan, then laid off because of COVID-19 and rehired by the end of 2020, treated as having an employer-initiated severance from employment for purposes of determining whether a partial termination of the plan occurred? (added July 30, 2020)

A15. Generally, no. Subject to the facts and circumstances of each case, participating employees generally are not treated as having an employer-initiated severance from employment for purposes of calculating the turnover rate used to help determine whether a partial termination has occurred during an applicable period, if they’re rehired by the end of that period. That means participating employees terminated due to the COVID-19 pandemic and rehired by the end of 2020 generally would not be treated as having an employer-initiated severance from employment for purposes of determining whether a partial termination of the retirement plan occurred during the 2020 plan year.

See Revenue Ruling 2007-43 for more information on partial terminations, including vesting rules, how to calculate the turnover rate for employer-initiated severances, the presumption that a

turnover rate of at least 20 percent during an applicable period results in a partial termination, and how to determine the applicable period.

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