

Law & Policy Group

GRIST



IRS releases three issue snapshots for retirement plans

By Ellen Stone, Margaret Berger and Brian Kearney
April 23, 2020; revised April 29, 2020

With the COVID-19 pandemic dominating news cycles, retirement plan sponsors may not have noticed three new [issue snapshots](#) on IRS's website. These research summaries aim to educate plan sponsors, IRS audit agents and other practitioners on a variety of tax issues. While the snapshots generally summarize existing guidance rather than provide new information, they may alert sponsors to the kinds of issues IRS agents review during plan audits.

Failure to timely distribute assets on plan terminations. A terminating retirement plan must distribute its assets as soon as administratively feasible under all facts and circumstances. This generally means distributions must be completed within 12 months of the plan's termination date. However, filing [Form 5310](#) to request a determination letter (DL) on the plan termination extends the 12-month period. A plan that fails to timely distribute assets must continue to meet the Internal Revenue Code's requirements on plan qualification, minimum funding (if applicable) and reporting.

Plan loan cure period. Under IRS regulations, a retirement plan may — but is not required to — give participants a cure period to correct a delinquent loan and avoid triggering a deemed distribution. This snapshot explains the cure period rules and applies them to several fact patterns.

Design-based safe harbor plan compensation. IRS will not issue a DL expressing an opinion on a plan's design-based safe harbor formula unless the plan's definition of compensation automatically satisfies the nondiscrimination requirements of Treas. Reg. Section [1.414\(s\)-1\(c\)](#) without the need for annual testing. The snapshot reminds sponsors requesting a DL that if a plan does not use such a definition, the sponsor must amend the plan's definition of compensation or modify the DL submission to withdraw the request to review the formula. The snapshot also gives several examples of compensation satisfying and not satisfying the rules.

Related resources

- [Issue snapshot — Plan loan cure period](#) (IRS, March 12, 2020)
- [Issue snapshot — Design-based safe harbor plan compensation](#) (IRS, March 12, 2020)
- [Issue snapshot — Plan termination: failure to timely distribute assets](#) (IRS, March 3, 2020)

Note: Mercer is not engaged in the practice of law, accounting or medicine. Any commentary in this article does not constitute and is not a substitute for legal, tax or medical advice. Readers of this article should consult a legal, tax or medical expert for advice on those matters.