

MAY 2020

# IAP HARDSHIP WITHDRAWAL

Update on Tax and Payback Provisions



Prepared by:  
**Retirement Benefits Department**

## COVID-19 IAP HARDSHIP WITHDRAWAL: **GENERAL DISCLAIMER**



### **This Is A Brief Summary**

- ▶ The information presented here is general, high level and educational in nature.
- ▶ The Trust Document for the Individual Account Plan (IAP or “Plan”) includes the complete set of Plan rules.
- ▶ In case of any inadvertent errors in this presentation, the rules in the Plan’s Trust Document will govern.

## FIVE BASIC TAX PROVISIONS OF IAP HARDSHIP WITHDRAWALS

1

**Tax  
Distribution**

2

**No  
Direct  
Rollover  
Allowed**

3

**Early  
Distribution  
Penalty  
Waived**

▶ If under 59 ½  
years of age

4

**Option to  
Spread  
Taxes Over  
3 Years**

5

**Option to  
Payback All  
or a Portion of  
Distribution**

## TAXABLE DISTRIBUTION + NO DIRECT ROLLOVER ALLOWED

1 + 2

- ▶ Employer Contributions are made on a pretax basis ("Tax Deferred")
- ▶ Taxable to the participant upon distribution
- ▶ **Hardship Tax Rule:** This is a taxable lump sum partial distribution; no rollover allowed per IRS regulations on hardships
- ▶ Distributions are reported on 2020 IRS Form 1099-R to be issued by MPI to participants in January 2021
- ▶ Participants can choose to include entire distribution in income in 2020 or spread income over three years

## EARLY DISTRIBUTION PENALTY WAIVED

3

- ▶ A 10% “Early Withdrawal Penalty” normally applicable for participants under age 59 ½ has been waived
- ▶ Special relief included in 2020 CARES Act
- ▶ Good news for our participants!

## OPTION TO SPREAD TAXES OVER 3 YEARS

4

- ▶ Participants have the option to spread their tax payment on this withdrawal over three years

### **Pending further guidance from the IRS (What we know and subject to change):**

- ▶ The IRS will issue a new schedule “2020 Form 8915-E” later this year in 2020
- ▶ Will give participants the ability to either include the distribution in income in 2020 or spread equally over 2020, 2021 and 2022
- ▶ Look at 2019 Form 8915-B as an example of what the new Form 8915-E could look like when it is released

## OPTION TO PAYBACK ALL OR A PORTION OF DISTRIBUTION

### 5

- ▶ Participants have an **option** to payback or not to payback
- ▶ Payback can be made during the three year period from the date of distribution
- ▶ No Payback allowed after three years from the date of distribution
- ▶ Any amounts **paid back** to the IAP within three years **will not be taxable** to the participant

## OPTION TO PAYBACK ALL OR A PORTION OF DISTRIBUTION

### 5

- ▶ Any **unpaid** amounts at the end of three years from the date of distribution **will be taxable** to the participant
- ▶ To receive full tax benefit, must payback full withdrawal amount including taxes withheld
- ▶ Can receive a tax refund from IRS if taxes are withheld by the Plan or paid in a year prior to the repayment
- ▶ Repayments will be **self-reported** each year in the corresponding IRS Form 8915 by the participant



## PAYBACK PROCESS (UNDER DEVELOPMENT)



### PAYBACK WINDOW:

**September 1, 2020  
through mid-2023**

- ▶ Payback Form and Process will be available on September 1, 2020
  - ▶ Check [www.mpiphp.org](http://www.mpiphp.org) for updates
- ▶ Repayments can be made until the due date of the tax return for a year, including extensions, to avoid taxation for that year
- ▶ You may find it helpful to use a professional tax preparer/CPA to assist with taxes during these years
- ▶ MPI will provide a list of payments received by date to assist with tax preparation



**IMPORTANT: MPI will not provide any tax reporting or forms other than the IRS Form 1099-R in the year of distribution (2020)**

# Hardship Withdrawal of \$15,000 – **No** Taxes Withheld and **No** Payback

OPTION

1

**TAXED IN 2020**

- ▶ Full \$15,000 taxable in 2020

OPTION

2

**TAXED OVER 3 YEARS**

- ▶ Spread taxable income of \$5,000 per year (3 years)

PAYBACK + TAX-SPREADING: **EXAMPLE 2**

**Hardship Withdrawal of \$15,000 –  
No Taxes Withheld and  
Payback of \$3,000 Per Year for 3 Years**

**\$5,000** Taxable income per year **without** payback

– **\$3,000** Payback per year

= **\$2,000** Net taxable amount per year

PAYBACK + TAX-SPREADING: **EXAMPLE 2**

**Hardship Withdrawal of \$15,000 –  
No Taxes Withheld and  
Payback of \$3,000 Per Year for 3 Years**



## WHY YOU SHOULD CONSIDER PAYING BACK: **PAYBACK BENEFIT 1**



### Save on Taxes

- ▶ Any amounts paid back within three years will not be subject to taxes
- ▶ Tax savings will add to retirement savings and compound over time
- ▶ Taxes will be deferred until actual retirement from the industry
- ▶ The real benefit intent of the plans is **savings for retirement** when active income is expected to be limited

## WHY YOU SHOULD CONSIDER PAYING BACK: **PAYBACK BENEFIT 2**

### Rebuild Retirement Savings

- ▶ “Time Value of Money - Power of Compounding”
- ▶ 7% rate of return used below is for illustration purposes only and is not a guaranteed rate of return under the Plan. Your actual rate or return will be different:

EXAMPLES	AGE NOW	AGE AT RETIREMENT	YEARS TO RETIREMENT	WITHDRAWAL PAYBACK AMOUNT	LONG TERM AVERAGE RATE OF RETURN	FUTURE VALUE AT RETIREMENT
<b>Participant A</b>	35	65	30	\$7,500.00	7%	\$57,091.91
<b>Participant B</b>	45	65	20	\$12,500.00	7%	\$48,371.06
<b>Participant C</b>	55	65	10	\$20,000.00	7%	\$39,343.03

## COMMENTS AND QUESTIONS



### Contact MPI at:

- ▶ [service@mpiphp.org](mailto:service@mpiphp.org)
- ▶ (855)-275-4674  
6:00 AM – 6:00 PM Pacific Time