



February 03, 2015

The 2014 Airlines Bankruptcy Payments Rollover Act – American Airlines

On December 18, 2014, President Obama signed into law the “**2014 Airlines Bankruptcy Payments Rollover Act**” (H.R. 2591.) This Act amended certain provisions of the FAA Modernization and Reform Act of 2012 (P.L. 112-95, Section 1106.)

OVERVIEW – The intent of this law is to allow qualified employees in commercial airline carrier bankruptcy cases (e.g. American Airlines) to transfer payments received from their bankrupt employer into their Traditional Individual Retirement Accounts (IRA). Thus, this Act allows the qualified employees to defer federal personal income tax until they begin receiving distribution from their Traditional IRA when they retire. However, the Act defines certain requirements, conditions and limitations which we will discuss.

ROLLOVER – Under the Act, a “qualified employee” who receives “airline payment amount” can transfer any portion of this payment, but only up to 90% of the amount, into a Traditional IRA within 180 days of receipt of the amount or within 180 days of the date of the enactment of the Act depending upon the taxpayer’s facts and circumstances. The taxpayer must consult with a competent tax advisor regarding his own specific facts and circumstances to assure whether or not the rollover is considered an allowed rollover under Internal Revenue Code (IRC) Section 402(c) and the stated above Acts (H.R. 2591 and P.L. 112-95, Section 1106.) Therefore, for the year that the qualified employee received the airline payment amount, the qualified employee may exclude from his federal personal taxable income, the portion of the payment he rolled over into his Traditional IRA. This arrangement is a tax deferral as stated above. A qualified employee has the right to roll over any portion of the airline payment amount to his ROTH IRA. This would mean paying federal income tax when payment is received. However, any amount in a ROTH IRA will grow tax free from that date forward including principal and any future earnings.

AIRLINE PAYMENT AMOUNT – It is defined as payments (i.e. money or other property) paid by a commercial passenger airline carrier to a qualified airline employee under a Federal Bankruptcy Court. The exception to an airline payment is defined as any amount with respect to the airline’s future profit and earnings. The 2014 Act further modifies the definition of “airline payment amount” to only payments in a commercial airline carrier bankruptcy case filed after September 11, 2001 and before January 1, 2007 or on November 29, 2011.



February 03, 2015

The 2014 Airlines Bankruptcy Payments Rollover Act – American Airlines

QUALIFIED AIRLINE EMPLOYEE – The 2014 Act expands the definition of “qualified airline employee” to employees or former employees of a commercial passenger airline carrier who participated in a defined benefit plan maintained by a commercial airline carrier that was frozen effective November 1, 2012 (2012 FAA Modernization Act (Sec. 1106(c)(2)(B), PL 112-95, 2/14/2012 as amended by 2014 Airline Bankruptcy Payments Rollover Act §1(b)(2).) These changes allow qualified employees of **American Airlines** that filed a voluntary bankruptcy proceeding and froze their defined benefit plans on November 1, 2012 to receive relief under this Act for a rollover provision as described above.

AMENDED TAX RETURNS – Based on the 2014 Act, if you realize that your prior year tax returns can be corrected and receive a refund, you have an opportunity to amend your prior tax returns by the latter of April 15, 2015 or the expiration of the statute of limitation for refund claims (Sec. 1106(a)(3), PL 112-95, 2/14/2012 as amended by 2014 Airline Bankruptcy Payments Rollover Act §1(a)). In general, the statute of limitation for amending a tax return and requesting a refund is three years from the original deadline for the tax return OR two years from the last tax payment made for that year.

We recommend that you discuss your specific facts and circumstance with a competent tax advisor to legally minimize your tax liabilities.