

119TH CONGRESS  
1ST SESSION

# S. 2964

To allow penalty-free distributions from retirement accounts in the case of certain Federal contractors impacted by Federal Government shutdowns.

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## IN THE SENATE OF THE UNITED STATES

OCTOBER 1, 2025

Ms. CORTEZ MASTO (for herself, Mr. KAINE, Mr. WYDEN, Ms. ALSOBROOKS, Ms. KLOBUCHAR, Mr. MARKEY, Mrs. SHAHEEN, Mr. VAN HOLLEN, Mr. WARNER, Mr. BLUMENTHAL, Ms. ROSEN, Ms. HIRONO, Mr. DURBIN, Mr. PADILLA, and Mr. BOOKER) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To allow penalty-free distributions from retirement accounts in the case of certain Federal contractors impacted by Federal Government shutdowns.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Emergency Relief for  
5 Federal Contractors Act of 2025”.

1 **SEC. 2. TAX-FAVORED WITHDRAWALS FROM RETIREMENT**  
2 **PLANS.**

3 (a) IN GENERAL.—Section 72(t) of the Internal Rev-  
4 enue Code of 1986 shall not apply to any Federal Govern-  
5 ment shutdown distribution.

6 (b) AGGREGATE DOLLAR LIMITATION.—

7 (1) IN GENERAL.—

8 (A) LIMITATION.—For purposes of this  
9 section, the aggregate amount of distributions  
10 received by an individual which may be treated  
11 as Federal Government shutdown distributions  
12 for any taxable year shall not exceed \$30,000.

13 (B) INFLATION ADJUSTMENT.—In the case  
14 of any taxable year beginning after 2025, the  
15 \$30,000 amount under subparagraph (A) shall  
16 be increased by an amount equal to—

17 (i) such dollar amount, multiplied by

18 (ii) the cost-of-living adjustment de-  
19 termined under section 1(f)(3) of the In-  
20 ternal Revenue Code of 1986 for the cal-  
21 endar year in which the taxable year be-  
22 gins, determined by substituting “calendar  
23 year 2024” for “calendar year 2016” in  
24 subparagraph (A)(ii) thereof.

25 If any amount as adjusted under the preceding  
26 sentence is not a multiple of \$500, such amount

1           shall be rounded to the nearest multiple of  
2           \$500.

3           (2) TREATMENT OF PLAN DISTRIBUTIONS.—If  
4           a distribution to an individual would (without regard  
5           to paragraph (1)) be a Federal Government shut-  
6           down distribution, a plan shall not be treated as vio-  
7           lating any provision of law merely because the plan  
8           treats such distribution as a Federal Government  
9           shutdown distribution, unless the aggregate amount  
10          of such distributions from all plans maintained by  
11          the employer (and any member of any controlled  
12          group which includes the employer) to such indi-  
13          vidual for any taxable year exceeds the dollar  
14          amount in effect under paragraph (1)(A).

15          (3) CONTROLLED GROUP.—For purposes of  
16          paragraph (2), the term “controlled group” means  
17          any group treated as a single employer under sub-  
18          section (b), (c), (m), or (o) of section 414 of the In-  
19          ternal Revenue Code of 1986.

20          (c) AMOUNT DISTRIBUTED MAY BE REPAID.—

21           (1) IN GENERAL.—Any individual who receives  
22           a Federal Government shutdown distribution may,  
23           at any time during the 3-year period beginning on  
24           the day after the date on which such distribution  
25           was received, make 1 or more contributions in an

1 aggregate amount not to exceed the amount of such  
2 distribution to an eligible retirement plan of which  
3 such individual is a beneficiary and to which a roll-  
4 over contribution of such distribution could be made  
5 under section 402(c), 403(a)(4), 403(b)(8),  
6 408(d)(3), or 457(e)(16) of the Internal Revenue  
7 Code of 1986, as the case may be.

8 (2) TREATMENT OF REPAYMENTS OF DISTRIBUTIONS FROM ELIGIBLE RETIREMENT PLANS OTHER  
9 THAN IRAS.—For purposes of the Internal Revenue  
10 Code of 1986, if a contribution is made pursuant to  
11 paragraph (1) with respect to a Federal Government  
12 shutdown distribution from an eligible retirement  
13 plan other than an individual retirement plan, then  
14 the taxpayer shall, to the extent of the amount of  
15 the contribution, be treated as having received the  
16 Federal Government shutdown distribution in an eli-  
17 gible rollover distribution (as defined in section  
18 402(c)(4) of such Code) and as having transferred  
19 the amount to the eligible retirement plan in a direct  
20 trustee-to-trustee transfer within 60 days of the dis-  
21 tribution.  
22

23 (3) TREATMENT OF REPAYMENTS OF DISTRIBUTIONS FROM IRAS.—For purposes of the Internal  
24 Revenue Code of 1986, if a contribution is made  
25

1       pursuant to paragraph (1) with respect to a Federal  
2       Government shutdown distribution from an indi-  
3       vidual retirement plan (as defined by section  
4       7701(a)(37) of such Code), then, to the extent of the  
5       amount of the contribution, the Federal Government  
6       shutdown distribution shall be treated as a distribu-  
7       tion described in section 408(d)(3) of such Code and  
8       as having been transferred to the eligible retirement  
9       plan in a direct trustee-to-trustee transfer within 60  
10      days of the distribution.

11      (d) DEFINITIONS.—For purposes of this section—

12           (1) FEDERAL GOVERNMENT SHUTDOWN DIS-  
13      TRIBUTION.—The term “Federal Government shut-  
14      down distribution” means any distribution which  
15      is—

16           (A) received by an applicable individual  
17           from an eligible retirement plan, and

18           (B) made during a Federal appropriations  
19           lapse with respect to such individual.

20           (2) APPLICABLE INDIVIDUAL.—The term “ap-  
21      plicable individual” means any individual—

22           (A) who—

23           (i) is a Federal contractor or an em-  
24           ployee of a Federal contractor, and

1 (ii) is placed on unpaid leave or work-  
 2 ing without pay due to a Federal appro-  
 3 priations lapse,

4 (B) who—

5 (i) is an employee of a Federal grant-  
 6 ee or of a State,

7 (ii) whose compensation is advanced  
 8 or reimbursed in whole or in part by the  
 9 Federal Government, and

10 (iii) is furloughed, working without  
 11 pay, or working with a decrease in pay due  
 12 to a Federal appropriations lapse, or

13 (C) who—

14 (i) is an employee of—

15 (I) the District of Columbia  
 16 Courts,

17 (II) the Public Defender Service  
 18 for the District of Columbia, or

19 (III) the District of Columbia  
 20 government, and

21 (ii) is furloughed or working without  
 22 pay due to a Federal appropriations lapse.

23 (3) FEDERAL APPROPRIATIONS LAPSE.—

24 (A) IN GENERAL.—The term “Federal ap-  
 25 propriations lapse” means any continuous pe-

1           riod of at least 2 weeks during which there is  
2           a lapse in Federal appropriations (including a  
3           partial lapse).

4                   (B) PERIOD OF LAPSE.—A period of lapse  
5           in Federal appropriations shall not be a Federal  
6           appropriations lapse with respect to an indi-  
7           vidual for longer than the period during which  
8           the individual is furloughed, on unpaid leave, or  
9           performing work without pay (or working with  
10          a decrease in pay in the case of an applicable  
11          individual described in paragraph (2)(B)(iii))  
12          due to such lapse.

13                   (4) ELIGIBLE RETIREMENT PLAN.—The term  
14          “eligible retirement plan” has the meaning given  
15          such term by section 402(c)(8)(B) of the Internal  
16          Revenue Code of 1986.

17                   (e) INCOME INCLUSION SPREAD OVER 3-YEAR PE-  
18          RIOD.—

19                   (1) IN GENERAL.—Unless the taxpayer elects  
20          not to have this paragraph apply for any taxable  
21          year, any amount required to be included in gross  
22          income for such taxable year with respect to any  
23          Federal Government shutdown distribution shall be  
24          so included ratably over the 3-taxable-year period  
25          beginning with such taxable year.

1           (2) SPECIAL RULE.—For purposes of para-  
2 graph (1), rules similar to the rules of subparagraph  
3 (E) of section 408A(d)(3) of the Internal Revenue  
4 Code of 1986 shall apply.

5 (f) SPECIAL RULES.—

6           (1) EXEMPTION OF DISTRIBUTIONS FROM  
7 TRUSTEE-TO-TRUSTEE TRANSFER AND WITH-  
8 HOLDING RULES.—For purposes of sections  
9 401(a)(31), 402(f), and 3405 of the Internal Rev-  
10 enue Code of 1986, a Federal Government shutdown  
11 distribution shall not be treated as an eligible roll-  
12 over distribution.

13           (2) FEDERAL GOVERNMENT SHUTDOWN DIS-  
14 TRIBUTIONS TREATED AS MEETING PLAN DISTRIBUTU-  
15 TION REQUIREMENTS.—For purposes of the Internal  
16 Revenue Code of 1986, a Federal Government shut-  
17 down distribution shall be treated as meeting the re-  
18 quirements of sections 401(k)(2)(B)(i),  
19 403(b)(7)(A)(i), 403(b)(11), and 457(d)(1)(A) of  
20 such Code.

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