

# THE CARES ACT: Highlighted Provisions

April 2020

On March 27, 2020, Congress passed, and the president signed into law the “Coronavirus Aid, Relief and Economic Security Act” (CARES Act). It provides a \$2 trillion economic stimulus for businesses and individuals faced with the challenges of the COVID-19 pandemic. There are a wide range of provisions. The following is a brief overview of notable provisions of the CARES Act as it pertains to individuals:

## Recovery Rebate

For immediate aid during this unprecedented time of economic uncertainty, the government will send up to \$1,200 payments to eligible single taxpayers and \$2,400 for married couples filing joint returns. They will send an additional \$500 payment to taxpayers for each qualifying dependent child under age 17. Rebates are gradually phased out, at a rate of 5% of the individual’s adjusted gross income over \$75,000 (for singles or marrieds filing separately), \$122,500 (for head of household), and \$150,000 (for joint filers).

Rebates will be paid out in the form of checks or direct deposits. Most individuals won’t have to take any action to receive a rebate. The IRS will compute the rebate based on a taxpayer’s 2019 return (or 2018 return, if no 2019 return has yet been filed). If no 2018 return has been filed, the IRS will use information for 2019 provided in Form SSA-1099, Social Security Benefit Statement, or Form RRB-1099, Social Security Equivalent Benefit Statement. Note that a taxpayer’s 2020 income will ultimately determine his or her eligibility, which will be settled when filing the 2020 return.

## Coronavirus Related Distributions

Prior to the CARES Act, early distributions taken out of a qualified retirement plan would subject the taxpayer to income tax liability plus a 10% penalty. The CARES Act provides some relief to those who must withdraw from a qualified plan or IRA during this economic downturn.

“Coronavirus-Related Distributions” are distributions of up to \$100,000, made from IRAs, employer-sponsored retirement plans, or a combination of both, which are made in 2020 by an individual who has been impacted by the Coronavirus. A taxpayer qualifies if they meet one of the following:

- Have been diagnosed with COVID-19, or
- Have a spouse or dependent who has been diagnosed with COVID-19, or
- Experience adverse financial consequences as a result of being quarantined, furloughed, laid off, or having work hours reduced because of the disease, or
- Are unable to work because they lack childcare as a result of the disease, or
- Own a business that has closed or operated under reduced hours because of the disease, or
- Experience other factors, as determined by the Treasury Secretary.

## Tax Benefits

Potential tax benefits associated with Coronavirus-Related Distributions include:

- **Exempt From the 10% Penalty** – Individuals under the age of 59 ½ may access retirement funds without the normal penalty that would otherwise apply.
- **Not Subject to Mandatory Withholding Requirements** – Typically, eligible rollover distributions from employer-sponsored retirement plans are subject to mandatory Federal withholding of at least 20%. Coronavirus-Related Distributions, however, are exempt from this requirement.

- **Eligible to be Repaid Over 3 Years**— Beginning on the day after an individual receives a Coronavirus-Related Distribution, they have up to three years to roll all or any portion of the distribution back into a retirement account. Furthermore, such repayment can be made via a single rollover, or multiple partial rollovers made during the three-year period. Finally, if distributions are rolled using this option, an amended return can (and should) be filed to claim a refund of any tax paid attributable to the rolled over amount.
- **Income May Be Spread Over 3 Years** – By default, the income from a Coronavirus Related Distribution is split evenly over 2020, 2021, and 2022. A taxpayer can, however, elect to include all the income from a Coronavirus-Related Distribution in their 2020 income, if that is advantageous.

### Income Tax Filing

The traditional due date of April 15, 2020 for filing Federal income tax returns and making Federal income tax payments, is postponed to July 15, 2020. The period beginning on April 15, 2020, and ending on July 15, 2020, will be disregarded in the calculation of any interest, penalty or addition to tax for failure to pay the Federal income taxes postponed by the notice. This is an automatic benefit.

Importantly, state deadlines vary. Please be sure to confirm with your accountant the specific rules for both 2019 filing as well as 2020 estimated payment deadlines.

### Waiver of Required Distribution Rules

Required minimum distributions (RMDs) that otherwise would have to be made in 2020 from defined contribution plans (such as 401(k) plans) and IRAs are waived. This includes distributions that would have been required by April 1, 2020, due to the account owner's turning age 70 1/2 in 2019.

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### Charitable Deduction Liberalizations

The CARES Act also makes some changes to the rules governing charitable deductions:

- Individuals will be able to claim a \$300 “above-the-line” deduction for cash contributions made to public charities in 2020. This rule effectively allows a limited charitable deduction to taxpayers claiming the standard deduction.
- The limitation on charitable deductions for individuals is generally 60% of modified adjusted gross income (MAGI). This does not apply to cash contributions made to public charities in 2020. Instead, an individual's qualifying contributions can, in general, be as much as 100% of modified adjusted gross income (AGI). Qualified Charitable Contributions must be made in cash and they cannot be used to fund a donor-advised fund (DAFs).

### Break for Non-Prescription Medical Products

Beginning in 2020, the definition of qualified medical expenses, for purposes of Health Savings Accounts (HSAs), Archer Medical Savings Accounts (MSAs), and Healthcare Flexible Spending Accounts (FSAs) is expanded to include over-the-counter medications. In addition, amounts paid for menstrual care products are treated as amounts paid for medical care.

There are many other provisions in the act related to unemployment, small business relief, student loans, etc., in addition to likely further legislative action. As always, please feel welcome to contact us with any specific questions.

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