Summary of CARES Act for Individuals

On March 27th, the President signed into the law the Coronavirus, Aid, Relief, and Economic Security (CARES) Act, which includes a number of provisions aimed at providing retirement plan-related relief to Americans.

The bill is intended to be a third round of federal government support in the wake of the coronavirus public health crisis and economic fallout, succeeding the $8.3 billion in public health support passed two weeks ago and the Families First Coronavirus Response Act.

Below are provisions in the CARES Act that involve individuals and families along with provisions for businesses. Details outlined below are subject to change as additional guidance is provided by lawmakers and agencies regarding the provisions.

Provisions for individuals:

Recovery rebates: Over 90% of taxpayers should receive some amount of a recovery rebate. The rebate is a refundable income tax credit against your 2020 income taxes. For Married Filing Jointly the rebate is up to $2,400 and for single filers up to $1,200. There is an additional rebate of $500 for each child in the household under the age of 17.

The rebate begins to phase out for taxpayers who earn more than $150,000 for Married Filing Jointly, $112,500 for Head of Household, and $75,000 for all other filers. The credit is completely phased out at $198,000 for Married Filing Jointly, $136,500 for Head of Household, and $99,000 for all other filers. The rebate will be based on 2018/2019 income but will ultimately be trued up based on 2020 taxes. Taxpayers who had higher earnings in 2018 and 2019 who may not qualify for the rebate or get less of a rebate may in fact need it the most if they are among the individuals who have been laid off in 2020.

Coronavirus related distributions: People who have been impacted by the Coronavirus may make distributions up to $100,000 from IRAs, and other employer sponsored retirement plans and be exempt from the 10% penalty during the tax year 2020 if they are under age 59 ½. Those who are considered impacted by the Coronavirus: Diagnosed with COVID-19, spouse or dependent with COVID-19, experience adverse financial consequences as a result of being quarantined, furloughed, laid off, or having work hours reduced because of disease, are unable to work because they lack childcare as a result of the disease, own a business that has closed or operates under reduced hours because of the disease or meet some other reason that the IRS decides to say is ok. The funds distributed can also be rolled back over a 3-year period or the income can be spread over the next 3 years. Some tax planning can be accomplished here to capture the income from these distributions in one year (assuming lower income received due to not working) or spread over three years to minimize the full tax impact.

Required Minimum Distribution waiver: IRA owners and beneficiaries taking stretch distributions do not need to take their 2020 required minimum distributions (RMD). This includes RMDs for people 70 ½ that needed to take their first RMD in 2019 but deferred taking their distribution until 2020.

Some clients may want to return their RMD now, and they can transfer it back to an IRA if within the 60-day rollover window. If past the 60 days, the person may not be able to roll back into the IRA or plan unless they qualify for one of the Coronavirus distribution exceptions listed above and have the three-year window to roll their money back into the plan. Beneficiaries who have already taken distributions are not eligible to roll back in unless we see additional guidance from the IRS or Congress for allowing more liberal rollover provisions.

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Charitable Contributions: The new act allows a $300 above the line Qualified Charitable Contribution. This is only available for taxpayers taking the standard deduction. Must be made in cash and not used to fund Donor advised funds (DAFs) or 509(a)(3) supporting organizations. Currently available for 2020 and beyond (as of right now). The act also temporarily repeals the AGI limit on charitable contributions. Former rules that were recently put in place provided a max of 60% of AGI for deducting charitable contributions. The action now increases that to 100% of AGI. Any amounts not deductible can be carried forward for 5 years like before. As with the $300 deduction, the charitable deduction cannot be used for contributions to DAFs or 509(a)(3) supporting organizations.

Additional loan and mandatory withholding provisions for retirement plans: Mandatory withholding requirements have been eliminated and loans from qualified plans have been expanded. Loans up to a new limit of $100,000 (prior loan maximum was $50,000) and 100% of the vested balance can be used. Payments to repay the loan can also be delayed.

Student loan provisions: Student loan payments may be deferred until 9/30/2020 - no interest will accrue on the debt and required payments are suspended. Voluntary payments are not suspended so people will need to contact their loan providers to pause payments. Any student borrower who intends to qualify for a program that will ultimately forgive the entirety of their Federal student debt should immediately pause payments as this period will count toward loan forgiveness programs. All involuntary debt collections are also suspended through 9/30/2020, such as wage garnishment or the reduction of other Federal benefits. Employers can also exclude student loan repayments from compensation – Employers can provide employees with compensation up to $5,250 for purposes of student debt payments and exclude those amounts from their income. This amount coordinated with the regular $5,250 limit that employers can provide employees tax-free for current education. There are also some Pell Grant and Subsidized Federal Student Loan Relief for students leaving school built into the provisions.

Medical provisions: Beginning in 2020 qualified medical expenses are expanded for HSAs, Archer Medical Savings accounts, and FSAs to include over the counter medications. Medicare beneficiaries will be eligible to receive the COVID-19 vaccine when available at no cost, and Medicare Part D recipients must be given the ability to have, upon request, a 90-day supply of medication prescribed and filled during the COVID-19 emergency.

Provisions for Businesses:

Paycheck protection program and forgivable loans: a partially forgivable loan program offered through the Small Business Administration (SBA) is being offered to qualifying businesses. Businesses must apply by June 30, 2020 and the loans will be provided by existing SBA lenders. The loan term will have a max maturity of 10 years and be guaranteed by the Small Business Administration. There will be limits on who qualify, such as fewer than 500 employees and show that the loan is necessary due to the uncertain economic environment caused by COVID-19. Employers must also maintain the same number of employees from February 15 through June 30, 2020 as it did during 2019 or from January 1st, 2020 through February 15th, 2020. There will also be limits on the amount of the loans and the proceeds must be used to cover certain costs like payroll, health premiums, utilities, etc.

The great benefit of these loans will be that all or a portion of the loan can be forgiven if used for certain expenses like payroll, rent, utilities, etc. The debt forgiven will not be included in income for the year. The max interest rate will be 4%, and deferral of payments needs to be at least 6 months but no longer than a year. In a separate section of the law, there is an employee retention credit that will be available to employers' that meet certain criteria who are subject to closure along with a separate provision allowing a deferral of payroll tax payments that extend to 2021 and 2022.

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Additional Net Operating Loss provision: The act also loosened the Net Operating Loss rules for businesses. The CARES act allows corporations (other than REITs) any NOL from 2018, 2019, or 2020 to be carried back up to five years. This will help reduce prior year tax bills, allowing businesses to claim refunds of amounts previously paid to provide further liquidity to get them through the COVID-19 crisis. This provision allows Net Operating Losses to offset 100% of taxable income to be used for 2018, 2019, and 2020. Additionally, non-corporate businesses that were previously limited to $250,000 (single filers) and $500,000 (joint filers) of losses attributable to businesses as a write off are now offered unlimited amounts for 2018, 2019, and 2020.

Source: finance.senate.gov

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