

CARES Act Overview

On Friday, March 27, President Trump signed into law the **Coronavirus Aid, Relief, and Economic Security Act (or the CARES Act)** a \$2 trillion coronavirus economic stimulus bill.

This Bill is the latest in a series of actions and announcements (which includes the “Families First Coronavirus Response Act” legislation passed early in March) taken by both the federal and state governments focus on stabilizing and lessening the economic damage caused by the virus by directly helping individuals, businesses, and state and local governments.

Provisions in the CARES Act include the following:

- \$500 billion for loans and assistance to companies and state and local governments, including \$29 billion for loans to U.S. airlines and related businesses. Stock buybacks and executive compensation would be restricted. Additional funds would be provided to aviation workers.
- The Act would bar businesses controlled by the president, vice president, members of Congress, and heads of executive departments from receiving loans or assistance under the Treasury Department programs.
- \$349 billion in low-interest small business loans that could be partially forgiven.
- Payments of as much as \$1,200 for individual taxpayers, and \$500 per child, phased out when incomes exceed \$75,000 for individuals and \$150,000 for couples filing jointly.
- An additional \$600 per week for those receiving unemployment benefits.
- Waiver for the requirement to take Required Minimum Distributions (RMDs) from retirement plans due in 2020.
- \$150 billion for aid to state, local, and tribal governments.
- A suspension of Medicare sequestration through the end of the year and the extension of several health programs until December.
- Provide approximately \$342 billion in emergency supplemental funding, including \$100 billion for hospitals.

The following pages include a summary of the provisions and actions taken which most likely impact individuals.

Action Taken

Impacted Individuals

Commentary & Observations

Federal & State Income Tax Filing Dates

Federal Incomes Taxes – IRS

- Per IRC Notice 2020-18, the Treasury Department officially postponed Tax Day (normally April 15th) 90 days to July 15, 2020.
- The July 15 due date applies for both filing a return and for paying income taxes.
- This postponement is automatic and applies for any "person", including an individual, a trust, estate, partnership, association, company or corporation.
- Individuals or entities whose 2019 taxable income would result in the need to pay income taxes, this action helps by giving them more time to pay the taxes.
- Those who are having difficulty obtaining professional help in completing and filing their tax returns.
- In the past, an extension (using IRS Form 4868) allowing the file of a personal tax return on Oct 15 was normally automatically approved, but if an individual owes taxes those taxes still needed to be paid by April 15th.
- This postponement is different than the normal request of an extension because it postpones BOTH the filing AND payment of the taxes, and is automatic (tax filer does not have to file a form to obtain the extension).
- This postponement helps those who will owe income taxes. Those who are going to receive a refund should still file as soon as possible to obtain it.

California – Franchise Tax Board (FTB)

- Original Tax Deadline: April 15, 2020.
- COVID-19 Adjusted Deadline: Filing and payment deadline moved to July 15, 2020.
- Taxpayers who will have a tax liability for 2019 tax year, this action helps them by giving them more time to pay the taxes.
- The FTB originally announced on March 13, 2020 (before the Treasury and IRS announcement) a 60 day filing and payment postponement to June 15, 2020 but moved it 90 days (July 15) after the announcement by the Federal government.

Hawaii

- Original Tax Deadline: April 20, 2020
- Covid-19 Adjusted Deadline: Filing & payment deadline moved to July 20, 2020
- Taxpayers who will have a tax liability for 2019 tax year this action helps them by giving them more time to pay the taxes.
- Hawaii's Department of Taxation announced on March 23, 2020 that it is extending the due date for individuals and corporate tax returns to July 20, 2020.

Postponement of Deadline to Make Contributions for 2019 to IRAs and Retirement Plans

- Original Contribution Deadline: April 15, 2020
- Covid-19 Adjusted Deadline: Contribution deadline moved to July 15, 2020
- Individuals or employers who would like to contribute to a retirement account but may be unable to do so by the original deadline date due to cash flow issues caused by the virus.
- Due to the moving of Tax Day to July 15, 2020, contribution deadlines are also moved to the July 15 date for making contributions to an IRA or for an employer to make contributions to its workplace-based retirement plan on account of 2019, is also extended to the July 15 date.
- Participants may make contributions to an HSA or Archer MSA for 2019 at any time up to July 15, 2020.

Due Date for Gift and Generation-Skipping Transfer (GST) Tax Returns and Payments

- Original Tax Deadline: April 15, 2020
- Covid-19 Adjusted Deadline: July 15, 2020
- Individuals who made gifts which are large enough to be subject to gift or GST taxes.
- The postponement is automatic; no Form 8892 is required.
- An affected taxpayer may file Form 8892 to obtain an extension to file by October 15, 2020.

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Stimulus Payment under the CARES Act (New §6428; CARES Act §2201(a))

- Eligible individuals are allowed a credit (stimulus payment) of \$1,200 (\$2,400 for joint filers), plus \$500 for each qualifying child, for the first taxable year beginning in 2020.
- A person who qualifies as eligible individual is someone who has a Social Security number and who is not a nonresident alien, an individual who can be claimed as a dependent on another taxpayer's return, or an estate or trust.
- Individual who earn under \$75,000, or a married couple who makes less than \$150,000 combined.
- The credit would be reduced by 5% for the amount a taxpayer's income exceeds \$75,000 (all filers other than joint and head of household), \$112,500 (head of household), or \$150,000 (joint filers).
- Individuals who make more than \$99,000 in earnings (or \$198,000 for a couple) will not receive any of the rebate amount.
- A qualifying married couple with two children (under age of 17) will get a total rebate payment of \$3,400.
- The Joint Committee on Taxation, the official congressional scorekeeper on such matters, says the cost of the rebate payments will be \$292.4 billion over a decade.
- One estimate is that 165 million people, or 93% of all tax filers, will get some benefit, with about 140 million of taxpayers getting the full amount.¹

Tax-Favored Withdrawals from Retirement Plans (suspension of 10% penalty) (CARES Act §2202(a))

- "Coronavirus-related distributions" from eligible IRAs and company retirement plans are not subject to the 10% early distribution penalty for up to \$100,000 of withdrawals taken in 2020.
- Taxes are still due on the withdrawal but can be evenly spread over a 3 year period beginning in taxable year 2020.
- Taxpayers may also avoid income taxes on the withdraw by repaying the distribution within three years of receipt.
- Impacted individual who are not subject to early distribution penalties (those over 59½ years old) can still spread the income taxes over a 3 year period.
- In order to qualify as a "coronavirus virus related distribution" an individual has to be affected by the virus in the following ways: Being diagnosed with SARS-CoV-2 or COVID-19, whose spouse or dependent is so diagnosed, or who experiences financial hardship because of quarantine or other factors.
- Affected individuals who qualify for the "Coronavirus-related distributions" and need to make withdrawals to pay for needed expenses.
- Should only be utilized if there are no other funds available to avoid severe financial hardship, although the ability to repay withdrawn amounts within 3 years can help rebuild retirement savings.
- Withdrawn amounts could affect ability to meet retirement goals, especially since retirement account values are likely down due to recent market volatility.

Loans from Retirement Plans (CARES Act §2202(b))

- For qualified individuals maximum loan amount from qualified employer plans is increased from \$50,000 to \$100,000 (reduced by other outstanding loans).
- Rule applies to loans taken within 180 days from Bill's date of enactment.
- For outstanding loans, loan repayments normally due between the date of enactment of the CARES Act and 12/31/2020 can be delayed for one year.
- Individuals who prefer to take loans rather than distributions from a company retirement plans.
- Those who currently have loans and are having difficulty making payments.
- Loans taken from company retirement plans are not subject to income taxes (although loans need to be paid back with interest), and therefore participants may prefer to take loans rather than take withdrawals that are taxable.

¹ Estimate by Kyle Pomerleau, a resident fellow at the American Enterprise Institute as appears in the Article: "When and How Will I Get That \$1,200 Stimulus Payment?: Quick Take" by Laura Davison, Bloomberg Daily Tax Report.

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Temporary Waiver of Required Minimum Distributions (RMDs) from Retirement Plans (New IRC §401(a)(9)(I); IRC §402(c)(4); CARES Act §2203)

Waiver of RMDs in 2020:

- 2019 RMD due by April 1, 2020, for those who turned 70½ in 2019 and did not take any RMD in 2019.
- 2020 RMD from company plans and IRAs.
- 2020 RMDs from company plans, IRAs, and Roth IRAs for beneficiaries (inherited accounts).
- Anyone who turned 70½ in 2019 and have not taken any of the 2019 RMDs before January 1, 2020.
- Individuals whose Required Beginning Date (RBD) was prior to 2020 (those who turned 70 ½ before 2019). Important Note: the Secure Act passed earlier this year changed the age from 70½ to 72 for 2020 on.
- Individuals in RMD status who do not need distributions or withdrawals for expense needs and would rather save on the income taxes which incur from such distributions.
- Generally, those who turn 70½ in 2019 have the option to take the 2019 RMD in the year he or she turns 70½ (2019), or they can take the 2019 RMD before April 1st of the following year (2020). Due to the CARES Act, the 2019 RMD distribution (if it was not taken in 2019) is waived.
- Since the 2020 RMD amounts are determined using end of year 2019 values, the RMD amount will likely be substantially higher than if they were base on current account value (especially given recent market volatility), which would also correspond to higher income taxes.
- Those who need the RMD for living expenses should continue to take the needed withdrawals to meet those needs; the taxes from withdrawals will be lower if that amount is less than their normal RMD.

Temporary Relief for Student Loan Borrowers (CARES Act §3513)

- Suspension of student loan payments for federally owned student loans through September 30, 2020.
- During the payment suspension period, interest will also not accrue on such loans.
- During the suspension period nonpayment cannot be used to affect credit scores or a person's qualification for loan forgiveness.
- Those who have federally owned loans and are unable to make loan payments.
- This relief is not applicable for all student loans, and apply to Direct Loans and Federal Family Education Loans (FFEL loans) currently owned by the U.S. Department of Education, commercially held FFEL and Perkins loans do not qualify.
- For those with commercially owned FFEL and Perkins loans, loan providers may still provide some level of relief (borrowers should contact their loan provider).
- It is estimated roughly 9 million federal student loan borrowers have at least one loan not covered by the Act.

Charitable Giving - Temporary Suspension of Limitation on Certain Cash Contributions (CARES Act §2205(a))

- For the 2020 tax year, the deduction percentage limitation (normally 60% of AGI) for charitable contributions made with cash has been removed for individual taxpayers.
- Individuals who make large cash charitable gifts and who in previous years could not deduct the entire amount due to AGI limitations.
- Under the previously passed 2017 Tax Cuts and Jobs Act, the amount of charitable deduction for cash gifts is limited to 60% of the taxpayer's adjusted gross income (AGI), with any unused deduction available to be used on future tax returns for up to a 5 year period. Under the CARES Act, this limitation has been removed, allowing full deduction of cash charitable gifts even if such contribution exceed the 60% AGI threshold.
- This change applies for the 2020 tax year.

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