

The CARES Act:

How it Might Affect You



On March 27, 2020 President Trump signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, HR 748. While the focus of the legislation is not tax, a large number of tax provisions are included in the over-600 page bill.



REQUIRED MINIMUM DISTRIBUTIONS FOR 2020

This requirement has been waived for 2020. This is a real benefit for those IRA owners whose 2020 RMD (required minimum distribution) was based on a much larger account balance as of December 31, 2019. Taxpayers can now sit this out for a year and avoid selling investment holdings that have declined in value and avoid paying a large tax bill. This applies to Traditional IRAs, Inherited IRAs, Inherited Roth IRAs, and company retirement plans. NOTE: This also applies to 2019 RMDs that may have been postponed to April 1, 2020 as the required beginning date; any 2019 amount remaining and not withdrawn by January 1, 2020 is waived.

SEC 72(T) 10% EARLY WITHDRAWAL PENALTY

This penalty has been waived for distributions up to \$100,000 taken in 2020 from IRAs and company retirement plans. Eligible distributions can be taken up to December 31, 2020. The taxes would still need to be paid, but can be spread out evenly over three years. The funds could be repaid during those three years. You qualify if any of the following criteria are met: (1) you, a spouse, or dependent tested positive for SARS CoV-2 or COVID-19, or (2) you, a spouse, or a dependent suffered adverse financial consequences from being quarantined, furloughed, or laid off or had their work hours reduced or unable to attend work due to lack of child care. Employers could allow plan participants to self-certify that they are qualified to withdraw funds from an employer-sponsored plan.

MINIMUM CONTRIBUTIONS FOR RETIREMENT PLANS

The bill delays 2020 minimum required contributions for single-employer plans until 2021.

COMPANY RETIREMENT PLAN LOANS

The plan loan limit has been increased from \$50,000 to \$100,000 (limited to the actual account balance, if less). This rule applies to loans taken out within 180 days of the CARES Act enactment. Any loan payments due between date of enactment and December 31, 2020 could be suspended for one year. Written evidence showing that a participant has been affected by the pandemic would need to be submitted to the plan administrator.

STUDENT LOAN PAYMENTS

The government has already waived two months of student loan payments and interest for federal student loan borrowers. In addition, until September 30, there will be automatic payment suspensions for any student loan held by the Federal government. The bill says that interest "shall not accrue" on the loan during the suspension period.

THE CARES ACT

Some other items to note in the government's response to the COVID-19 include:

TAX FILING DEADLINE EXTENDED

The tax filing deadline for 2019 returns has been extended from April 15 to July 15, 2020. Confirmed by the IRS, this extension also postpones the deadline for making 2019 prior-year Traditional IRA and Roth contributions to July 15, 2020. State filing and payment deadlines vary by state and do not always follow the federal filing deadline; California will be following the Federal filing date of July 15, 2020.

TAX REBATES

The bill provides for payments to taxpayers, called "recovery rebates", which are being treated as advance refunds of a 2020 tax credit. Under this provision, individuals will receive a tax credit of \$1,200 (\$2,400 for joint filers), plus \$500 for each qualifying dependent child. The credit is phased out for adjusted incomes over \$150,000 (joint filers), \$112,500 (heads of household), and \$75,000 (single filers). Taxpayers will reduce the amount of their credit available on their 2020 returns by the amount of the refund received in advance.

CHARITABLE DEDUCTIONS

The bill creates an above-the-line charitable deduction for 2020 (not to exceed \$300). The bill also modifies the AGI (Adjusted Gross Income) limitations on charitable contributions for 2020, to 100% of AGI for individuals and 25% of taxable income for corporations. The bill also increases the food contribution limits to 25%.

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References:

Ed Slott IRA Newsletter, April 2020 edition. Journal of Accountancy, 3/27/20. Alistair M. Nevius, J.D.

