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CARES Act: What It Means for You

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law to provide economic support to individuals and businesses affected by COVID-19. While we will receive additional guidance in the coming weeks, here is a brief overview of the key provisions.

CASH PAYMENTS

A primary part of the CARES Act is a payment of \$1,200 per eligible individual (\$2,400 for those filing jointly) plus \$500 per each qualifying child. Individuals with adjusted gross incomes between \$75,000 and \$99,000 are phased out from receiving the payment (joint adjusted gross income phased out between \$150,000 and \$198,000). The rebate is for the 2020 tax year and will be issued based on the taxpayer's 2019 or 2018 adjusted gross income. There are no minimum income requirements for the payment.

The Act also provides unemployed workers an extra \$600 a week for up to four months, in addition to state unemployment benefits.

RETIREMENT PROVISIONS

A qualifying individual for retirement relief is defined as someone who is diagnosed with COVID-19, has a spouse or dependent who is diagnosed with COVID-19, or who experiences adverse financial consequences as a result of quarantine, furlough, layoff or reduced work hours, lack of childcare, closing of a business, or other factors as determined by the Secretary of the Treasury. The plan may rely on participant certification that those condition(s) are met. The retirement provisions include:

- **Penalty-free distributions from retirement accounts**
The Act waives the 10% early withdrawal penalty for coronavirus-related distributions, not to exceed \$100,000, from an IRA or qualified plan (plan must allow withdrawal features). This provision allows individuals to provide a certification to the plan/IRA that they are eligible. Income tax on the distribution would still be owed but could be paid over a three-year period. Individuals could recontribute the funds to a plan or IRA within three years without regard to contribution limits. If funds are not repaid, they can be included ratably over three taxable years beginning with year of receipt. Consult with your tax advisor for more information.
- **Increased 401(k) loan limits**
For a coronavirus-affected investor, the dollar amount for a 401(k) loan is increased from \$50,000 to \$100,000 or 100% of a participant's vested value, rather than 50%. Loan repayments may be delayed for one year if certain criteria are met.
- **Required minimum distributions (RMDs) waived for 2020**
The Act provides a one-year waiver of RMDs for retirement plans and IRAs (for IRA owners and beneficiaries) for 2020, with the exception of defined benefit plans. The waiver applies to 2019 RMDs that need to be taken by April 1, 2020, and 2020 RMDs. Rollovers of RMDs already taken are allowed if within the 60-day rollover timing. This is not applicable to beneficiary IRAs that have already taken a distribution. There may be additional rollover opportunities once the IRS issues clarification.
- **Filing dates postponed**
Individuals now have until July 15, 2020 to file their 2019 tax returns. The Act gives expanded powers for the Secretary of Labor to postpone other filing dates, to be determined.

CHARITABLE CONTRIBUTIONS

The Act relaxes some of the limitations on charitable contributions, allowing a deduction of up to \$300 of cash contributions, regardless of whether the individual itemizes deductions. For those who itemize their deductions, the 50% of adjusted gross income limit is suspended for 2020.

The Act also increases the 10% limit on corporations to 25% of taxable income, and increases the 15% limitation on food inventory to 25%.

STUDENT LOANS

The definition for employer provided educational assistance is expanded to include up to \$5,250 in student loan payments made by an employer by the end of 2020. The Act suspends student loan payments automatically with no interest or penalties accruing during the period. Involuntary collections on student loans are also suspended, which includes offsetting an income tax refund.

MORTGAGES

The Act provides a number of provisions to help homeowners and renters who have been affected by COVID-19. Servicers of federally backed loans are required to postpone mortgage payments if requested by the borrower due to coronavirus-related financial hardship, for up to 180 days and extended for an additional period of up to 180 days. Additionally, servicers may not initiate foreclosure proceedings for at least 60 days from March 18, 2020.

Landlords cannot institute evictions for 120 days after the CARES Act date of enactment or charge any fees or penalties for nonpayment of rent.

SMALL BUSINESSES

The Act puts in place substantial help for small businesses (500 or fewer employees). The Small Business Administration has been instructed through a variety of loans (some forgiven and deferred) and grants for disaster relief.

Additional efforts include the Paycheck Protection Program, which prioritizes millions of Americans employed by small businesses by authorizing up to \$349 billion toward job retention and other expenses. Small businesses and eligible nonprofit organizations, veterans organizations, and tribal businesses described in the Small Business Act, as well as individuals who are self-employed or are independent contractors, are eligible if they also meet program size standards. Small business owners should contact their banking relationships to learn about relief available.

This material is intended for general consumer educational purposes and is not intended to provide legal, tax or investment advice. Always consult your tax advisor for specific tax advice.