Coronavirus Aid, Relief, and Economic Security (CARES) Act

Recently enacted legislation provides relief for families and businesses impacted by the coronavirus pandemic. The high level summary below highlights some of the provisions that primarily are geared toward individuals and business owners. There are many other provisions in this very comprehensive recovery legislation which are beyond the scope of this publication. These include loan programs for businesses, expanded unemployment insurance benefits, new provisions on sick leave and family leave, and funding for a variety of health-related efforts and government programs. Always be sure to work closely with your own tax advisor for guidance in applying these new rules to your own situation.

For individuals:

Stimulus payments	Payments of $1,200 (single/head of household) and $2,400 (joint filers) will be sent to taxpayers within certain income limits. An additional $500 payment is available for each qualifying child. These payments will be determined based on your most recently filed tax return or Social Security benefit statement, if no return was filed. The amount of the payment is reduced by 5% of the amount by which income exceeds $75,000, $112,500 (head of household), or $150,000 (joint).
IRA distributions	Required minimum distribution rules are waived for 2020 distributions from IRAs, including inherited IRAs and 2019 distributions taken in 2020 which had a required beginning date of April 1, 2020. Distributions from IRAs received during 2020 of up to $100,000 for COVID-19 related purposes are allowed without a 10% penalty for pre-59 ½ distributions, taxable evenly over 3 years beginning with year of distribution, and may be recontributed within 3 years. Related purposes include a COVID-19 diagnosis for you, your spouse or dependent, and financial hardship as a result of business closures, reduced work hours, lay off, furlough, lack of child care or other factors as determined by the Treasury Secretary.
Retirement plan distributions and loans	Required minimum distribution rules are waived for 2020 distributions from certain defined contribution plans including 401(k), 403(b), 457(b) and IRA based plans. Distributions taken from qualified retirement plans received during 2020 of up to $100,000 for COVID-19 related purposes are allowed without a 10% penalty, taxable evenly over 3 years beginning with year of distribution, and may be recontributed within 3 years. Related purposes include a COVID-19 diagnosis for you, your spouse or dependent, and financial hardship as a result of business closures, reduced work hours, lay off, furlough, lack of child care or other factors as determined by the Treasury Secretary. Qualified retirement plan loan provisions are broadened to allow loans up to $100,000 or 100% of the participant's vested account balance, whichever is less. This applies to loans made within 180 days of enactment. Loan payments due from the date of enactment of the CARES Act until 12/31/20 may be delayed.
Student loan payment deferral	Student loan payments and accrual of interest under certain federal loan programs are suspended through September 30, 2020. Contact your loan provider for information about your specific student loan.
Charitable contribution deduction	A charitable deduction of up to $300 is allowed for those who do not itemized their deductions. The adjusted gross income limitation is waived allowing you to offset more of your taxable income. These two items apply only to cash contributions and are not available for contributions to donor advised funds or other supporting organizations.

For businesses:

Delayed payment of some employment taxes	Employers and self-employed individuals may defer payment of the employer share of applicable Social Security taxes beginning on the date of enactment through the remainder of 2020. The deferred amount may be paid over 2 years, half in 2021 and half in 2022. These taxes are being deferred, not forgiven, so businesses should be mindful about planning to pay these tax liabilities when they eventually come due.
Expanded use of losses	Net operating losses (NOLs) from 2018, 2019, or 2020 may be carried back 5 years. The 80% income limitation on use of NOLs is temporarily suspended. The limitation on use of excess business losses is temporarily suspended.
Defined benefit plan funding requirements	Single employer defined benefit plans normally required to be funded in 2020 have their funding deadline extended to January 1, 2021. The delayed funding will need to include interest accrued during the delay.
Charitable contribution deduction	The taxable income limitation for 2020 charitable contributions made by corporations is increased to 25%, if the contributions are made in cash and are not made to donor advised funds or other supporting organizations. The limitation on contributions of food inventory is also increased to 25%.

Initial considerations:

Accessing retirement plans	If you expect to access your retirement plan at work to meet unexpected cash flow needs, it is very important to first talk with the plan administrator to fully understand all of your options. It is equally important to talk with your tax advisor to ensure you are eligible for these provisions and make appropriate plans for paying taxes on withdrawals.
Charitable giving	Individuals who are in a position to make very generous charitable gifts can get tax benefits that were previously unavailable. With this temporary relief of income limitations on charitable gifts, these individuals may also want to consider recognizing income since it could be fully offset by your charitable gift. This may be a brief opportunity to consider a Roth IRA conversion or selling highly appreciated securities in conjunction with your qualifying charitable gift. Work closely with your tax advisor to do a detailed tax projection so that you will be fully aware of how a particular planning strategy would impact your overall tax return.
Amending business owner tax returns	The changes to NOL rules may provide an opportunity to amend previously filed income tax returns to access refunds of tax paid in prior years. Work with your tax advisor to determine your ability to access cash flow in this manner.

Many of these provisions contain limitations and other time sensitive or technical requirements that must be considered in order to fully take advantage of them. The next step is to connect with your advisors.

- Your tax advisor can help you understand how this legislation will impact your federal and state tax situation. Your state may not follow these federal laws or may put forth its own legislation.
- Your financial advisor can assess your overall financial picture and coordinate your cash flow needs.
- Your plan administrator can discuss the changes to your retirement plan.
- Your local unemployment office is another resource to help you navigate additional loss-of-pay provisions designed for those who have been unable to work.