



CARES ACT

NEW RULES, PLANNING STRATEGIES & OPPORTUNITIES

HIGHLIGHTS

APRIL 2020

Recovery Rebates

- ❑ Provided as a (refundable) tax credit for 2020 tax qualifiers and payment for 2018, 2019 tax qualifiers
- ❑ \$1,200 for individuals and \$2,400 for married couples
 - Additional \$500 per child under 17 years of age
- ❑ Phase Outs
 - Phases out based on income (AGI)
 - \$150,000 for married filing jointly
 - \$112,500 for head of household
 - \$75,000 for all other filers (e.g., single)
- ❑ Phases out at \$5 per \$100 of additional income

Recovery Rebates

- Based on 2019 tax return if filed
 - Otherwise 2018 tax return
- Accelerate tax filing if 2019 income was lower (more favorable) than 2018?
- ☐ To be paid 'as soon as possible' (but potentially not until May)
 - Social Security recipients to receive where they get their SS checks
 - Others direct deposit to wherever they received their 2018/2019 refund
 - Otherwise, sent to last known address on file...

Tax/Retirement Provisions ---

- ❑ Coronavirus-related distributions from retirement accounts
 - Up to \$100,000 from (combination of) IRAs or employer plans
 - Must be made in 2020
 - Must be because:
 - Have been diagnosed with COVID-19
 - Have spouse/dependent diagnosed with COVID-19
 - Experienced adverse financial consequences as a result of being quarantined, furloughed, laid off, or having work hours reduced because of the disease, or;
 - Are unable to work because they lack childcare as a result of the disease, or;
 - Own a business that closed or operated under reduced hours b/c of the disease, or;
 - Meet some other reason that the IRS decides to say is OK

Tax/Retirement Provisions ---

❑ Benefits of coronavirus-related distributions

- Exempt from 10% early withdrawal penalty
- Not subject to mandatory withholding (from employer plan)
- Eligible to be repaid over three years
 - Effectively a 'roll back' into the account
- Still taxable but income may be spread over three years
 - Unless 2020 is a lower-income year and client doesn't want to spread it out!

❑ Enhancements to loans from employer plans

- Maximum loan amount increased from \$50,000 to \$100,000 up to 100% of vested value instead of 50%
- Payments on plan loan otherwise owed may be delayed one year

Tax/Retirement Provisions ---

☐ RMDs waived in 2020

- RMDs suspended for 2020
 - Included IRAs, and also employer retirement plans, 403(b), and 457(b)
 - First-timers get to suspend delayed 2019 RMD as well as 2020!

- Also suspends RMDs that may have otherwise needed to be taken
 - Stretch IRA RMDs suspended as well!
 - 2020 ignored as a year for the 5-year rule

Tax/Retirement Provisions ---

- ❑ Rollback of RMDs waived in 2020
 - What if RMDs were already taken in 2020?
 - Already-taken RMDs may be rolled over (back into the account)?
 - 60-day rollover (if applicable)
 - Rollover as a Coronavirus-related distribution(?)
 - No option to roll back for *beneficiary* RMDs from inherited accounts

Tax/Retirement Provisions ---

☐ New above-the-line charitable deduction

▪ 'Qualified Charitable Contribution'

- Limited to \$300
- Must be made in cash
- Must go directly to a 501(c)(3) charity
 - ✓ Not a donor-advised fund
 - ✓ Not a 509(a)(3) supporting organization
- Available for those who do not itemize (above the line)

Tax/Retirement Provisions ---

- ❑ Expanded itemized charitable deduction
 - AGI limit for charitable contributions temporarily repealed
 - Only applies to cash contributions
 - Effectively increases AGI limit from 60%-of-AGI to 100%-of-AGI
 - Again must go directly to a 501(c)(3) charity
 - Not a donor-advised fund
 - Not a 509(a)(3) supporting organization

Unemployment Compensation ---

- ❑ Expanded eligibility, longer duration, bigger checks
 - Pandemic unemployment insurance
 - Unemployment compensation for those who don't qualify for anything else-self employed, sub contractors etc.
 - Elimination of waiting period
 - Federal gov't will cover first week of unemployment
 - Bonus check
 - 'Regular' state unemployment benefit bumped by up to a \$600/week
Federal payment for up to 4 months
 - Extension of benefits
 - 13 extra weeks of unemployment insurance
 - Incentives to create short-time compensation programs
 - Federal gov't to pay 50%

Small Business Provisions

☐ Paycheck protection program

- Loan that is fully guaranteed by the Small Business Administration (SBA)
 - Issued by SBA approved lenders and others specially designated
 - Must be applied for by June 30, 2020
 - Maximum duration 10 years
- Eligibility (in-general)
 - Less than 500 employees, or employee size standard under NAICS Code if larger
 - Good-faith certification that the loan is necessary due to the uncertainty of current economic conditions caused by COVID-19
 - ✓ Include the cost of qualified health care expenses allocated to wages.

Small Business Provisions

☐ Paycheck protection program

- Maximum loan equals the lesser of;
 - \$10 million
 - 2.5 x avg monthly payroll cost of previous year (excluding employee comp > \$100k)
 - Maximum duration 10 years
- Proceeds may be used for;
 - Payroll costs
 - Group health insurance premiums and other healthcare costs
 - Salaries and/or commissions
 - Rent or mortgage interest (excluding amounts pre-paid)
 - Utilities
 - Other business interest incurred prior to February 15, 2020

Small Business Provisions

☐ Paycheck protection program

- Forgivable portion of the loan equals 100% of amounts spent on the following items during the 8-week period following the issuance of the loan
 - Payroll costs, excluding prorated amounts for individuals with compensation greater than \$100,000;
 - Rent pursuant to a lease in force before February 15, 2020;
 - Electricity, gas, water, transportation, telephone, or internet access expenses for services which began before February 15, 2020; and
 - Group health insurance premiums and other healthcare costs
- But only if...
 - Same # of employees from February 15, 2020 through June 30, 2020 as either:
 - ✓ During either the same period in 2019
 - ✓ January 1, 2020 until February 15, 2020
 - No employees with compensation over \$100,000 have reductions of >25% compared to the most recent quarter

Small Business Provisions

☐ Paycheck protection program

- Other benefits include;
 - Discharged debt nontaxable
 - Maximum interest rate is 1%
 - Initial payments will be deferred for 6 to 12 months

☐ Employee retention credit

- New credit against payroll taxes
 - 50% of wages paid to each employee, up to max of wages/person
- Eligible wages means...
 - For businesses up to 100 employees, all wages (up to \$10k/month)
 - For employers with >100, only wages paid to individuals not providing services due to gov't shutdown or required revenue decline
 - Includes cost of qualified healthcare expenses allocable to wages

Small Business Provisions

☐ Employee retention credit

- Must qualify by either:
 - Having operations partially/fully suspended due to gov't-required suspension of operations
 - Have a quarter with <50% of revenue (not profit) from same-quarter 2019

- Will qualify to receive until earlier of;
 - End of 2020
 - When suspended operations resume for the quarter, or when revenue >80% of same calendar quarter of 2019

Small Business Provisions

- ❑ Deferral of payment of payroll taxes
 - Employers will be permitted to defer 2020 payroll taxes
 - 50% will be due on 12/31 of 2021
 - Remaining 50% will be due on 12/31 of 2022

- ❑ Applies to self-employed individuals as well (only 'employer' portion)



Small Business Provisions

- ❑ Net operating loss (NOL) rules loosened
 - Previously, NOLs could only be carried back 2 years, or forward up to 20
 - TCJA changed rules beginning in 2018 to allow indefinite carry-forward
 - CARES Act allows NOLs to be carried back up to 5 years
 - Applies for 2018, 2019, or 2020 NOLs
 - Accelerates a tax refund for current/immediate use
 - NOLs will now be able to offset 100% of taxable income (up from 80%)

Other Notable Provisions

☐ Relief for student borrowers

- Federal student loan payments deferred
 - No payments required until September 30th of 2020
 - No interest will accrue during the interim
 - Will still count towards loan forgiveness programs (e.g., PSLF)
- Required payments are suspended, but voluntary payments are not prohibited
 - Must be proactive to stop payments if desired
- Involuntary debt collections on Federal student loans also suspended

Other Notable Provisions

☐ Relief for student borrowers

- Employers can exclude student loan repayments from compensation
 - Employers have through the end of the year to pay up to \$5,250 for student debt purposes
 - ✓ Payments are excluded from employee income
 - ✓ Must still be coordinated with ‘regular’ \$5,250 limit for tax-free education
 - Pell Grant & Subsidized Federal Loan Relief for Students Leaving School
 - ✓ Periods of enrollment will not include a semester not complete ‘due to a qualifying emergency’

Other Notable Provisions


☐ Healthcare-related rules

- Definition of medical expenses expanded
 - Specifically for HSAs, Archer MSAs, and FSAs
 - Eligible medical expenses will now include over-the-counter (OTC) medication
 - Also expanded to include menstrual care products

- Other notable changes
 - Medicare beneficiaries to receive no-cost COVID-19 vaccine (when available)
 - Part D recipients can request up-to-90-day supply of medication
 - Telehealth services temporarily covered by HSA-eligible HDHP

CARES ACT ANALYSIS

Coronavirus Aid, Relief &
Economic Security



THANK YOU

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