



ECONOMIC RELIEF COMMENTARY

COVID-19 has undoubtedly impacted nearly every area of our lives the past few weeks. During these unprecedented times, the federal government has instituted several measures to provide economic relief to all American families and businesses from both monetary and timeline extension perspectives. Specifically, on Friday, March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act, commonly known as the CARES Act. We would like to take this opportunity to provide you with a very high-level summary of the Act and also address the steps the IRS has taken to provide some level of relief to Americans.

Please know that this is intended to serve as a general summary only and it should not be relied upon to serve as individual advice. For specific details as they relate to you, we suggest contacting your financial, legal, or tax advisor, as appropriate.

CARES ACT: CORONAVIRUS AID, RELIEF, & ECONOMIC SECURITY ACT

On March 27, the \$2 Trillion CARES Act was passed into law. Below are some highlights of this very comprehensive bill. Please note that these are general summaries. To determine if you qualify for specific relief, contact your appropriate advisor for more details.

STIMULUS REBATE CHECKS

All U.S. Residents are eligible to receive a recovery rebate based on Adjusted Gross Income of their 2019 IRS tax return, or if not yet filed, their 2018 return. There is no need to apply for this rebate.

Checks will be \$1,200 for single filers with a phaseout implemented for those earning more than \$75,000. For every \$100 of income above \$75,000, the rebate will decrease by \$5. No payment will be made to anyone who makes over \$99,000.

Checks will be \$2,400 for joint filers with a phaseout implemented for those earning more than \$150,000 for joint returns and \$112,500 for heads of household. For every \$100 of income above those thresholds, the rebate will decrease by \$5. No payments will be made to couples making \$198,000 or more or for those making in excess of \$146,500 as heads of household.

Qualified taxpayers will also receive an additional \$500.00 per child aged 16 and younger.

It is expected that distribution of money will begin within three weeks. There are no specific details about receiving direct payments at this point, but the IRS will post updates on its website.

RETIREMENT PLAN ACCOUNTS

Early Withdrawals

CARES Act waives the 10% early withdrawal fee for up to \$100,000 of distributions from retirement plans for the 2020 calendar year. The distributions must be coronavirus related and distributions must be for an individual who is diagnosed with COVID-19, his/her spouse or dependent who is diagnosed with COVID-19, or the individual experiences adverse financial conditions because of the coronavirus.

The income attributable to those distributions can be spread out over a three- year tax period. Qualifying taxpayers would also be allowed to repay their retirement plans to make up for money withdrawn to pay coronavirus-related expenses.

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Temporary Waiver of Required Minimum Distributions

The bill waives the requirement for taxpayers to take the 2020 Required Minimum Distribution from their retirement accounts. This includes those who have not yet received their first distribution if they turned 70 ½ in 2019.

Employer Plan and Loan Changes

CARES Act requires any plan amendments for coronavirus-related distributions, such as RMD waivers (noted above) and increased loan limits (noted below) to be updated by the last day of the plan year beginning on or after January 1, 2022 with an additional two years for government plans.

There is also a temporary increase in the plan loan dollar limits. It increased to the lesser of \$100,000 or 100% of the plan participant's vested balance and applies to loans taken within 180 days of the enactment of the CARES Act. Please note: Further clarification is needed from the U.S. Department of Labor on utilizing this loan. Additionally, the bill allows for a one-year delay for loan repayments due in 2020 with subsequent payments adjusted to take into account the delay.

Defined Benefit Plans

The bill also allows for single-employer pension plans that delay RMDs to January 1, 2021 to treat the plan's funding percentage (AFTAP or adjusted funding target attainment percentage) for plan years which include the 2020 calendar year the same as the funding percentage for the last plan year ending before January 1, 2020 with interest applying to late contributions.

UNEMPLOYMENT BENEFITS FOR SELF-EMPLOYED AND INDEPENDENT CONTRACTORS

CARES Act allows for an increase to state unemployment benefits by \$600 per week for four months. Also, it provides benefits for those not traditionally eligible for unemployment benefits, including self-employed workers and independent contractors.

States are also enhancing their benefits; it is recommended that you contact your specific state's department of unemployment for more details.

CHARITABLE CONTRIBUTIONS: MODIFIED LIMITATIONS

CARES Act temporarily suspends limits on cash donations for individuals and modifies limits for charitable contributions from corporations. For individuals, the 50% of adjusted gross income limitation is suspended for 2020. For corporations, the 10% limitation is increased to 25% of taxable income. It also increases the limitation on deductions for contributions of food inventory from 15% to 25%.

SMALL BUSINESS INTERRUPTION LOANS ELIGIBILITY

Small businesses, defined as businesses with 500 or fewer employees during the period from February 15 through June 30, 2020, are eligible to receive a loan of up to \$10 Million under the Small Business Act. The amount of loan available is based on a formula using monthly payroll as a guideline. Loans can be used for payroll as well as paid sick, medical, or family leave, costs related to the continuation of group health care benefits, mortgage payments and rent, utilities, and other debts. Loans could also be extended to sole proprietors, independent contractors and self-employed persons. There is no collateral or personal guarantee required for the loan. Also, loans are eligible for forgiveness if they meet specific criteria.

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PAYROLL TAX: CREDIT FOR EMPLOYERS SUBJECT TO CLOSURE DUE TO COVID-19

Employers who hold onto employees during the pandemic are eligible for a refundable payroll tax credit equal to 50% of wages paid by employers to employees during the COVID-19 crisis. Eligible employers are those whose operations were fully or partially suspended, or had gross receipts decline by more than 50% as compared to the same quarter the prior year.

The credit would offset the employer's share of Social Security taxes up to \$10,000 of qualified wages per employee. For employers with more than 100 full-time employees, qualified wages are wages paid when they are not providing services due to the COVID-19. For eligible employers with fewer than 100 full-time employees, all employee wages qualify for the credit.

PAYROLL TAX: PAYMENT DELAY

Applies to employers and self-employed individuals and defers the payment of 6.2% employer portion of Social Security tax for two years. The provision requires that the tax be paid over the next two years, with half due by December 31, 2021, and the remainder due by December 31, 2022.

MODIFICATION OF NET OPERATING LOSSES (NOLs)

The bill allows for a 5-year carryback for NOLs for the 2018, 2019, or 2020 tax years. It temporarily removes the 80% taxable limitation for net operating losses. It also suspends the excess business loss limitation for pass-through businesses and sole proprietors.

INCREASED INTEREST EXPENSES FOR BUSINESSES

The provision temporarily increases the amount of interest expense businesses can deduct by increasing the 30% limitation to 50% of taxable income for 2019 and 2020.

SUSPENSION OF STUDENT LOANS

The bill suspends payments for student loans under the Federal Family Education Loan and Direct Loan programs, without interest, through September 30, 2020. Collection efforts on these loans will also cease during this time. Although the money will need to be paid later, the interest during this time is waived entirely. Also, during this time, the collection of defaulted student loans will be deferred.

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TREASURY DEPARTMENT AND INTERNAL REVENUE SERVICE (IRS)

TAX FILING AND PAYMENTS EXTENSION

On March 21, via IR-2020-58, the federal income tax filing due date and payment date was extended from April 15, 2020 to July 15, 2020. This applies to all taxpayers, not only individuals, but includes corporations, non-corporate tax filers, and self-employed tax payers as well. This deadline also extends to first quarter estimated tax payments for the tax year 2020 that are due on April 15. It is also likely that the second quarter estimates will be delayed, but this extension has not been announced as of the date of this commentary filing.

If a tax payer needs an extension beyond July 15 an extension can be requested by filing Form 4868.

Many states are also extending their deadlines; please contact your specific state tax department for further details.

2019 CONTRIBUTIONS TO RETIREMENT PLANS AND HSAS

The IRS deferred the deadline for contributions to IRAs and Health Savings Accounts to July 15 to align with the new deadline for filing and tax payments.

HELPFUL LINKS

- <https://www.irs.gov/coronavirus>
- <https://www.dol.gov/coronavirus>
- <https://www.sbc.senate.gov/public/index.cfm/guide-to-the-cares-act>
- <https://www.uschamber.com/co/small-business-coronavirus>
- <https://studentaid.gov/announcements-events/coronavirus>
- <https://www.congress.gov/bill/116th-congress/house-bill/748/text>
- <https://www.coronavirus.gov/>

Sources:

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<https://www.financial-planning.com/news/new-cares-act-would-bring-tax-relief-for-retirement-accounts>

<https://www.consumerreports.org/federal-laws-regulations/coronavirus-financial-aid-cares-act/>

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