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What You Need to Know About “Recovery Rebates” Under the CARES Act

Presented by FourFront Advisors

On Friday, March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in an effort to help Americans manage the impact of the global COVID-19 pandemic. The bill provided sweeping assistance to industries hit hard by the crisis, as well as small businesses and individuals. One of the most notable aspects of the bill is the so-called “recovery rebates,” or stimulus checks, that will be sent to many Americans. Below are the answers to some frequently asked questions about these checks.

Q: Who is eligible to receive a stimulus check? How much will it be for?

A: Individuals and families with incomes below certain thresholds can expect to receive a check (or direct deposit), known as a “recovery rebate,” from the government. The amount will be based on your adjusted gross income (AGI) on your 2019 income tax return, if filed, or, if not yet filed, your 2018 tax return. Most individuals can find their AGI on Line 8B of their 2019 Form 1040. For 2018, AGI will be listed on Line 7.

The table below shows how much individuals can expect to receive, depending on their AGI and tax filing status.

Filing Status	AGI Less Than . . .	Payment Amount
Individual	\$75,000	\$1,200
Head of Household	\$112,500	\$1,200
Married Filing Jointly	\$150,000	\$2,400

In addition, families will receive an extra \$500 per child younger than 17.

Taxpayers with AGI above established thresholds will see their payment amount reduced by 5 percent of the income exceeding the threshold (\$5 of every \$100 in income), which means certain individuals will be phased out of receiving a stimulus check.

Q: How does the phaseout apply?

A: If your income is in excess of the thresholds above, you can use this formula to determine the amount of your check:

$$(\text{AGI} - \text{Threshold Amount}) \times 5\% = \text{Amount of Reduction}$$

$$(\text{Rebate Amount Based on Filing Status} + \$500 \text{ per Child Younger Than 17}) - \text{Amount of Reduction} = \text{Amount of Check}$$

Let's walk through some examples.

Married couple with one child. Amy and Floyd are married and have one 10-year-old daughter named Nellie. They had an AGI of \$158,000 in 2018 (they have not yet filed their 2019 taxes). Because Amy and Floyd file jointly, the income threshold applied to them is \$150,000. The following steps break down how the amount Amy and Floyd will receive is determined:

1. Take their AGI of \$158,000 and subtract the threshold amount of \$150,000 for an excess of \$8,000.
2. Multiply that \$8,000 by 5 percent for a total reduction of \$400. They are eligible for a rebate of \$2,400, plus \$500 for Nellie, for a total of \$2,900.
3. Subtract their reduction of \$400 from \$2,900 for a check in the amount of \$2,500.

Married couple with multiple children. Martin and Elizabeth are married and have three children: Ryann (6), Bryce (9), and Cody (17). They have already filed their taxes for 2019 and had an AGI of \$158,000.

The income threshold applied to Martin and Elizabeth is \$150,000. So, as with Amy and Floyd, the threshold amount of \$150,000 is subtracted from their AGI of \$158,000 for an excess of \$8,000. Then, that \$8,000 is multiplied by 5 percent for a total reduction of \$400. In this case, Martin and Elizabeth are eligible for a rebate of \$2,400 plus \$500 each for Bryce and Ryann (Cody is 17 and therefore does not qualify) for a total of \$3,400. Their reduction amount of \$400 is subtracted from \$3,400, leaving Martin and Elizabeth with a rebate check of \$3,000.

From this example, you can see that the flat reduction of 5 percent of the excess income means that for families with more children, the total phaseout range will be much higher.

Head of household with a dependent. Heather files as head of household and claims her brother Sid (age 20) as a dependent. Heather has filed her taxes for 2019 and had an AGI of \$136,500.

The income threshold applied to Heather is \$112,500, which is subtracted from her AGI of \$136,500 for an excess of \$24,000. That \$24,000 is multiplied by 5 percent for a total reduction of \$1,200. Heather is only eligible for a \$1,200 rebate—because her dependent is a sibling, rather than a child, she cannot receive the additional \$500 rebate. In addition, because Sid is being claimed as a dependent on Heather's return, he is not eligible for a rebate on his own. As such, Heather will not receive a stimulus check, nor will Sid.

Q: What if I am retired and all of my income is from social security?

A: For individuals who receive social security benefits and do not file taxes, the government will use information from their social security statement to determine eligibility.

Q: What if my income is low enough that I do not typically file taxes?

A: For many Americans not on social security who also do not file income tax returns, the IRS has established a website that allows individuals to provide their payment information: www.irs.gov/coronavirus/economic-impact-payments.

Q: How and when will I receive the funds?

A: Some stimulus payments are set to begin paying out as early as mid-April, but final distribution of all stimulus payments could extend into the summer or early fall, by some reports.

Individuals who have their bank information on file with the IRS for refunds or payments will receive their stimulus checks via direct deposit, as will those individuals who receive a social security payment via direct deposit. For all others, checks will be sent via mail, or the individual may provide direct deposit information via the IRS website: www.irs.gov/coronavirus/economic-impact-payments.

Q: Should I wait to file my taxes as a result of the stimulus checks?

A: The answer depends on which filing year (2018 or 2019) will provide you with a better stimulus check. For individuals who would be subject to the phaseouts based on their 2018 return, or those who began claiming a child as a dependent in 2019, it will likely be preferable to file their 2019 return, so that their check is based on the best possible circumstances.

The Treasury department has not provided a cutoff date as to when 2019 returns must be filed in order to be used for the stimulus check. So if your 2019 return would yield a higher check, it is best to file as soon as possible, despite the fact that the filing deadline has been extended to July 15. Conversely, for those taxpayers whose 2018 return would yield a better stimulus check, it may be preferable to delay filing until closer to the new deadline, provided that your state income tax return is not due earlier.

Q: Will I owe income taxes on my stimulus check?

A: No.

Q: If I have an unpaid tax bill, will I still be able to receive a check?

A: Yes.

Q: If my income tax refunds are being garnished for a student loan payment, will I still receive a check?

A: Yes.

Q: If I owe child support, will I receive a check?

A: You may not. If you have past-due child support payments, and your state has reported those past-due payments to the Treasury Department, you will not receive a stimulus check.

Stay Up to Date

The stimulus bill provides wide-ranging assistance to individuals and businesses that have been or will be negatively affected by the COVID-19 pandemic. This crisis is causing unprecedented

interruption in people's lives and in the economy, so it's possible further legislative action and government intervention may be forthcoming. Be sure to connect with your tax professional for a greater understanding of how the CARES Act may affect you.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

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