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Retirement Planning Insights
(special edition)

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What you need to know about the new coronavirus relief laws

On Friday, March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. While the CARES Act provides support for local governments, business, employees and individuals, I'd like to focus on the parts of the bill most likely to impact you and/or your retirement planning.

Relief payments to individuals (aka "tax credits" or "rebates")

Most individuals are eligible to receive a one-time relief payment under the CARES Act.

To be eligible to receive a payment, you must:

- have a valid Social Security number
- Not be a nonresident alien
- Not be claimed as a dependent on someone else's tax return

If you have already filed your 2019 tax return, the amount of your payment is dependent on your Adjusted Gross Income ("AGI") as reported on line 8b of 2019 Form 1040 or 1040-SR. If you have not yet filed your 2019 return, the AGI will instead be taken from your 2018 tax return, specifically line 7 of 2018 Form 1040.

If you were not otherwise required to file a return in 2019 or 2018, you will need to file a 2019 return to be eligible to receive a payment. Those who do not normally have to file a return are typically those who earn very little income or only receive Social Security benefits. The IRS stated they are going to be making information available with regards to where low-income taxpayers can go for assistance in filing a 2019 return. While not yet updated with the necessary information, the site will be **www.irs.gov/coronavirus**.

For taxpayers who filed as Single, Head of Household or Married Filing Single, the payment will be up to $1,200. For taxpayers who filed as Married Filing Jointly, the payment will be up $2,400. In both cases, there will be an additional payment of up to $500 per qualifying child. A "qualifying child" is a child listed as a dependent on your tax return who:

- is your biological or adopted child
- was under age 17 at the end of the tax year
- did not provide more than half of their own support, and
- lived in your house for more than half the year

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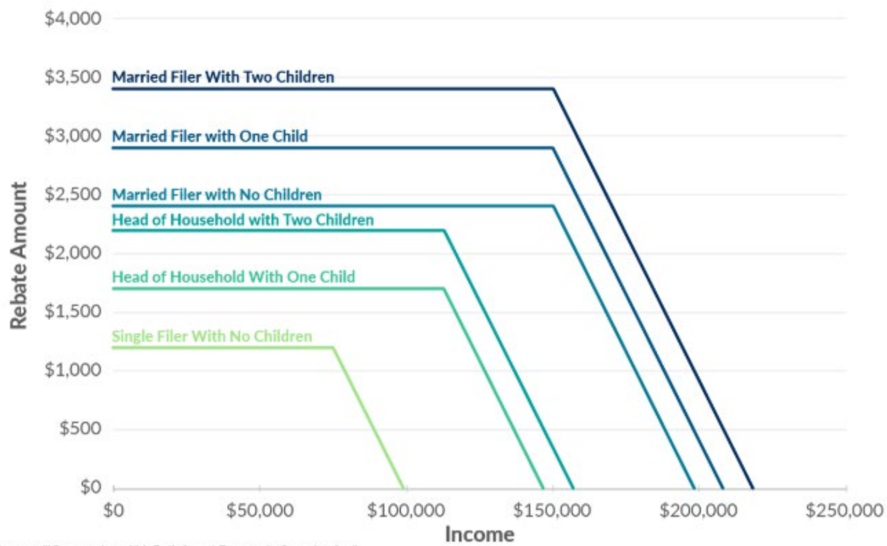
The amount of your total payment begins to reduce if your AGI was over a certain threshold. Specifically, your total payment will be reduced by 5% of the amount your AGI was over your respective threshold of:

- Single or Married Filing Single - $75,000
- Head of Household - $112,500
- Married Filing Jointly - $150,000

The chart below shows the expected total payment amounts under various combinations of filing status and number of qualifying children. For example, for a Married Filing Jointly couple who had two qualifying children, the total payment will be up to $3,400…$2,400 plus $500 for each child. If the couples' AGI was no more than $150,000, they will receive the full payment of $3,400. If their AGI was above $218,000, the payment will be completely reduced zero. For all AGIs in between, the payment will be adjusted on a sliding scale.



Source: "'Coronavirus Aid, Relief, and Economic Security Act"

While the details around the payment timing and method of delivery have not yet been formalized, Treasury Secretary Steven Mnuchin said he wants payments to be sent out within three weeks.

If you had a direct debit (or deposit) from (or to) your bank account on your 2019 or 2018 tax return, you should expect to receive your payment via direct deposit. If you instead sent (or received) a physical check for your 2019 or 2018 tax return, you should expect to receive your payment via physical check. However, the IRS stated they are creating an online portal that people can use to give bank instructions to receive payments via direct deposit. Either way, if you have already filed your 2019 or 2018 tax return, you do NOT need to take any action to receive your payment. Payments should be automatically sent to those who are eligible and whose payment amounts are not reduced to zero due to AGI limitations.

Payments will not be taxable. Technically, they are just advanced payments of tax credits to be used on your 2020 tax return.

Waiver of 10% penalty on early withdrawals from retirement accounts

Typically, if you're younger than 59 ½ and take a withdrawal from your tax-deferred retirement account such as an IRA, 401(k) or 403(b), you will have to pay a 10% penalty on the amount of the withdrawal (in addition to paying income tax on the withdrawal).

The CARES Act waives the 10% penalty if the distribution is:

- no more than $100,000
- paid back into the plan within three years, and
- a “Coronavirus-related distribution,” which is a distribution that is:
    - made before December 31, 2020, and
    - for an individual who:
        - is diagnosed with SARS-CoV-2 or COVID-19, or
        - experiences “adverse financial consequences” as a result of being quarantined, furloughed or laid off due to the Coronavirus pandemic

Please be aware that even though the 10% penalty may be waived, income tax will still be owned on the distribution.

Waiver of 2020 Required Minimum Distributions (“RMDs”)

In all tax-deferred retirement accounts such as IRAs, 401(k)s, 403(b)s, etc., account holders need to eventually start taking minimum amounts of distributions from the accounts. Such distributions are called Required Minimum Distributions, or RMDs.

Prior to 2020, you needed to start taking RMDs in the year you turned 70 ½, and then every year thereafter. However, if you were not already 70 ½ by December 31, 2019, you do not need to start taking RMDs until the year you turn 72, and then every year thereafter.

The CARES Act waives the need to take any RMDs in 2020. This waiver applies to those who were already taking RMDs as well as those who were due to start taking RMDs this year.

The CARES Act is 880 pages long, the majority of which pertains to providing stimulus and relief to businesses and their employees. As such, the information summarized above barely scratches the surface of everything contained in the new laws. My focus in thus far analyzing the CARES Act was solely with regards to how it will impact individuals and retirement planning.

If you have any questions about the CARES Act and what it means for you and your retirement planning, don’t hesitate to contact me at **andy@tenonfinancial.com** or 732-902-0066. Be well and stay safe.

-Andy