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

On March 27, 2020, President Trump signed the CARES Act in response to the coronavirus pandemic. Below are the tax provisions of the Act that apply most directly to individuals.

Rebate Advance Payment

CARES Act creates a tax credit of $1,200 per eligible individual ($2,400 for eligible individuals on a joint return) as well as $500 for each qualifying child. The credits begin phasing out at 5% of the amount your 2020 adjusted gross income exceeds $75,000 single ($112,500 for head of household and $150,000 married filing joint). The U.S. Treasury will make an advance payment of the refund based on information found on your 2019 income tax return, or if your return has not yet been filed your 2018 income tax return. The IRS will send a letter notifying you that it has disbursed the advance credit within 15 days of disbursement.

Because the credit is treated as a payment, the credit is refundable even if no taxes are owed. Please take special note that the advance payment is an advance of a 2020 credit. The government is going to pay you based on 2018 or 2019 information. If your 2020 income is greater than your 2019 income such that you would be allowed a smaller credit than the advance payment that the IRS sends you based on your 2019 income, then you are not required to pay back any of the advance credit. See IRC §6428(e)(1).

Relaxed rules for retirement funds

The additional 10% penalty for early withdrawals from retirement plans is suspended for coronavirus-related distributions. Such distributions are limited to $100,000 per person. If a person receives a coronavirus-related distribution, he or she may repay the amount into the retirement plan within 3 years from the date received and will be treated as though he or she made a retirement plan rollover within 60 days of the distribution. This means that up to $100,000 of retirement distributions can be repaid within three years or receipt and the distribution would not be subject to income tax. As with other rollovers, be wary of the limit on the number of rollovers allowed during a 12-month period.

An additional easing is that retirement plan custodians are not required to do the normal 20% withholding on rollover distributions not made directly to another retirement plan. This will put more money in the hands of someone needing to make a coronavirus-related distribution and makes it easier for the person to repay the funds into a retirement plan. If the taxpayer chooses not to repay, or is unable to repay the distribution to a retirement plan, he or she can elect to spread the resulting taxable income over a three-year period.

A person is eligible to make a coronavirus-distribution in the event that he or she or their spouse are diagnosed with COVID-19, or if a person experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of child care, closing or reducing hours of a business owned or operated, or other factors determined by the IRS.

Qualified plans (generally 401(k) plans) for 180 days after the enactment of the Act can allow plan participants to take a 401(k) loan of up to their entire retirement balance up to $100,000. Normally, those limits are one-half of the balance up to $50,000. The Act provides for a one year deferment of the due date of any outstanding 401(k) loan repayments. Eligibility rules for this relief are the same as described above for coronavirus-related distributions.

Waiver of Required Minimum Distributions

The Act generally suspends the requirements of IRC §401(a)(9), which requires the payment of required minimum distributions (RMDs) for 2020 for defined contribution plans and IRAs. The Act also states that if distributions are being made from the IRA of a decedent under the 5-year rule that the 5- year period will be determine without regard to calendar year 2020

Allowance of Above the Line Deduction for Charitable Contributions

The law generally allows for a deduction before the calculation of adjusted gross income of up to $300 of cash charitable contributions for years beginning in 2020. This would mean that the taxpayer would get a deduction for the contribution even if he is taking the standard deduction.

Increase of Charitable Deduction Limit

Deductions for cash contributions are generally limited to a 60% of adjusted gross income limitation with carryforwards allowed. The Act increases that limit to 100% of AGI with carryforwards allowed. To use the increased limit, the contribution must be paid in cash and must not be paid into either a new or existing donor advised fund or private foundation.

Payments by Employers of Student Loans

A new provision in the law allows for employees to exclude from gross income any amounts paid by their employers toward the employee’s student loans during 2020 up to a limit of $5,250. Employees must adjust their student loan interest deduction by the amount of any interest paid by an employer.

These are the major individual provisions of the CARES Act. There are always small exceptions and special rules that are beyond the scope of a general letter, so be sure that you get proper, individualized tax advice prior to making any moves. This is particularly true for significant ones. We are always available to help.

Very truly yours,

Treadwell, Tamplin & Co.