

# PROVISIONS UNDER THE CARES ACT



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## RECOVERY REBATES OF THE CARES ACT

- Will be a tax credit on an individual's 2020 tax return for their 2019 taxes (2018 if not filed)
- Eligibility/Income Thresholds Adjusted Gross Income
  - Single taxpayer: \$75,000
  - Head of Household: \$112,500
  - Married Filing Jointly: \$150,000
- Credit Amounts
  - Individuals/head of household -\$1,200
  - Married Filing Jointly - \$2,400
  - Additional \$500 credit per child
  - Phase out \$5 per \$100 of additional income over threshold
- How are payments made
  - No later than May 2020
  - Social Security beneficiaries will receive it with their Social Security payment
  - Direct deposit to account that received 2018/2019 tax refund
  - Mailed to address on file with IRS
  - Individuals will receive a notice confirming the benefit has been paid and how it was calculated
- Potential flaw with this provision
  - Good news is there are no "clawbacks" if 2020 income is higher than previous years. However, for many with successful 2018/2019s, but have a rough 2020 year this provision will most likely not help them
  - They also will not get relief until 2020

# TAX AND RETIREMENT PROVISIONS OF THE CARES ACT

## CORONAVIRUS RELATED DISTRIBUTIONS FROM RETIREMENT ACCOUNTS

- Eligibility Requirements – fairly broad provision below are a few qualifiers
  - Diagnosed with COVID-19
  - Spouse/Dependent diagnosed with COVID-19
  - Experience adverse financial consequences as a result of quarantine
- Only applies to distributions made in 2020
- Applies to distributions of up to \$100,000 from a combination of IRAs & Employer Retirement Plans
- No 10% withdrawal penalty for individuals under 59 ½
- Taxes eligible to be repaid over three years
- May repay coronavirus related distributions as a rollover within three years of the distribution and there is no limit to the number of checks they can roll back over the three years (can make several partial payments or do one lump sum rollover in the 3rd year for example) so long as they haven't done a 60 day rollover in the past 365 days

## ENHANCEMENT TO LOANS FROM EMPLOYER PLANS

- Max loan amount increased from \$50,000 to \$100,000
- Can take 100% of vested balance
- Payments on plan loan balance can be extended out an additional year

## RMDS WAIVED IN 2020

- Includes IRAs and Employer Plans
- First-timers get to suspend delayed 2019 RMDs as well as 2020 RMDs
- Includes stretch IRAs RMDs or RMDs that would have otherwise needed to be taken
  - 2020 can be ignored as a year for the Five Year Rule – extended one additional year

## ROLLBACK OF RMDS WAIVED IN 2020

- If RMD has already been taken this year, then distribution may be rolled back within 60 days, only if there has not been a 60 day rollover in 365 days
- Inherited IRAs are **NOT** eligible unless it is a spouse of the deceased, they can roll it back into their own IRA

## CHARITABLE DEDUCTIONS

- Expanded itemized charitable deduction (can deduct 100% of AGI)
- AGI limit to charitable contributions temporarily repealed
- Only applies to cash donations to 501(c)(3) organizations

# UNEMPLOYMENT COMPENSATION AND SMALL BUSINESS PROVISIONS

## NEW PANDEMIC EMPLOYMENT INSURANCE

- Self-employed individuals who don't normally qualify for unemployment insurance are now covered under this provision
- Federal government will cover the first week of unemployment if the state chooses (most states will do so)
- Increased the amount from \$360/week by adding an additional \$600 to the standard amount
- Eligible for up to four months
- Incentives to create short term compensation programs for employees who experienced reduced work hours (from full time to part time) – the government to pay 50%

## PAYCHECK PROTECTION PROGRAM

- Loan that is fully guaranteed by the Small Business Administration (SBA)
- **Must apply by 6/30/2020**
- Maximum duration is 10 years
- Eligibility:
  - Less than 500 employees OR employee size standard under NAICS code if larger
  - Good Faith certification by employer that the loan is necessary due to the uncertainty of current economic conditions caused by the coronavirus pandemic
- Maximum Loan Size: The lesser of 10 million or  $2.5\% \times$  average monthly payroll cost of previous year (excluding employee compensation > \$100,000)
- Proceeds can be used for: Payroll costs, group health insurance premiums/other health costs, salaries & commissions, rent/mortgage interest (mortgage payments not eligible), utilities

# SMALL BUSINESS PROVISIONS

## PAYCHECK PROTECTION PROGRAM (CONT.)

- **Benefits:** Forgivable portion of the loans equals 100% of the amounts spent on the following items during the eight week period following the issuance of the loan, Payroll costs, rent pursuant to a lease in force before 2/15/2020, electricity, gas, water, transportation, telephone, internet access expenses which began before 2/15/2020, But only if business retains the same number of employees from 2/15/2020 - 6/30/2020, Discharged debt non-taxable, Maximum interest 4%, Initial payments deferred for 6-12 months. 75% of loan must be used for payroll to be forgiven.

## EMPLOYEE RETENTION CREDIT

- New credit against 2020 payroll taxes
  - 50% of wages paid to each employee up to a maximum of \$10,000 of wages per person
  - Eligibility – must qualify either by:
    - a. Having operations partially/fully suspended due to government related suspension or b. Have a quarter < 50% of revenue (non-profit) from same quarter in 201)
  - Will qualify to receive until the earlier of the end of 2020 or when suspended operations resume for the quarter
- Deferral of Payment of 2020 Payroll Taxes
  - Others not eligible for the credit can still qualify for a deferral of 2020 payroll taxes (50% will be due on 12/31/2021 and remaining 50% due on 12/31/2022)
- Net Operating Loss (NOL) rules loosened
- Previous NOLs could only be carried back two years and forward up to 20 years
- CARES Act allows NOL to be carried back up to five years
- Applies to 2018, 2019, or 2020 NOLs
- NOLs will now be able to offset 100% of income

# STUDENT LOANS AND HEALTHCARE

## STUDENT LOAN PROVISIONS

- Federal student loan payments deferred
  - No payments required until 9/30/2020
  - No interest will accrue during the interim
  - Will still count toward loan forgiveness programs
  - Required payments are suspended but voluntary payments are not prohibited
  - **Must be proactive to stop payments**
  - Involuntary debt collections on federal student loans also suspended
- 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 – payments excluded from employee income

## HEALTHCARE RELATED RULES

- Definition of medical expenses expanded
- Specifically for Health Savings Accounts, Archer Medical Savings Accounts & Flexible Spending Accounts
- Eligible medical expenses will now include over-the-counter medication
- Also includes feminine care products
- Medicare beneficiaries will now receive no-cost COVID-19 vaccinations when available
- Medicare Part D recipients can request up to 90 day supply of medication
- Telehealth services temporarily covered by Health Savings Accounts under eligible High-Deductible Health Plan