

MEMO

DATE: April 1, 2020
TO: All Clients
FROM: Ayaz Mahmud
Anne Christopulos, CFP®
RE: The Coronavirus Aid, Relief, and Economic Security (CARES) Act

We hope that you are keeping yourself, your loved ones, and your community safe in these difficult times. While health concerns are of the utmost importance, we'd like to keep you informed of recent tax changes that may affect your personal finances. This letter summarizes some of the tax-related provisions in the Coronavirus Aid, Relief, and Economic Security (CARES) Act passed by Congress and signed into law on March 27, 2020.

- **RECOVERY REBATES FOR INDIVIDUALS**

The government will send up to \$1,200 payments to eligible taxpayers and \$2,400 for married couples filing joint returns. An additional \$500 additional payment will be sent to taxpayers for each qualifying child dependent under age 17 (using the qualification rules under the Child Tax Credit).

Rebates are gradually phased out, at a rate of 5% of the individual's adjusted gross income over \$75,000 (singles or marrieds filing separately), \$122,500 (head of household), and \$150,000 (joint). There is no income floor or "phase-in"-all recipients who are under the phase-out threshold will receive the same amounts. Tax filers must have provided, on the relevant tax returns or other documents (see below), Social Security Numbers (SSNs) for each family member for whom a rebate is claimed. Adoption taxpayer identification numbers will be accepted for adopted children. SSNs are not required for spouses of active military members. The rebates are not available to nonresident aliens, to estates and trusts, or to individuals who themselves could be claimed as dependents.

The rebates will be paid out in the form of checks or direct deposits. Most individuals won't have to take any action to receive a rebate. The IRS will compute the rebate based on a taxpayer's tax year 2019 return (or tax year 2018, if no 2019 return has yet been filed). If no 2018 return has been filed, IRS will use information for 2019 provided in Form SSA-1099, Social Security Benefit Statement, or Form RRB-1099, Social Security Equivalent Benefit Statement.

Rebates are payable whether or not tax is owed. Thus, individuals who had little or no income, such as those who filed returns simply to claim the refundable earned income credit or child tax credit, qualify for a rebate.

- **WAIVER OF 10% EARLY DISTRIBUTION PENALTY**

The additional 10% tax on early distributions from IRAs and defined contribution plans (such as 401(k) plans) is waived for distributions made between January 1 and December 31, 2020 by a person who (or whose family) is infected with the Coronavirus or who is economically harmed by the Coronavirus due to being quarantined, laid off, furloughed, reduced housing, childcare issues, or other reasons. Penalty-free distributions are limited to \$100,000, and may, subject to guidelines, be re-contributed to the plan or IRA as a qualified rollover contribution within a three-year period. Taxable income arising from the distributions is spread out over three years unless the employee elects to turn down the spread out. Employers may amend defined contribution plans to provide for these distributions. Additionally, defined contribution plans are permitted additional flexibility in the amount and repayment terms of loans to employees who are qualified individuals.

- **WAIVER OF MINIMUM REQUIRED DISTRIBUTION RULES**

Required minimum distributions that otherwise would have to be made in 2020 from defined contribution plans (such as 401(k) plans) and IRAs (including inherited IRAs) are waived. This includes distributions that would have been required by April 1, 2020, due to the account owner's having turned age 70 1/2 in 2019. There is no provision in the bill that allows someone to put back a distribution already taken in 2020, but it could potentially be treated as a coronavirus-related distribution as described above and repaid within 3 years. Certainly the 60-day rollover rule can be used to replace distributions taken in the prior 60 days, as long as this method has not been used in the prior twelve months.

- **CHARITABLE DEDUCTION LIBERALIZATIONS**

The CARES Act makes four significant liberalizations to the rules governing charitable deductions:

(1) Individuals will be able to claim a \$300 above-the-line deduction for cash contributions made, generally, to public charities in 2020. This rule effectively allows a limited charitable deduction to taxpayers claiming the standard deduction.

(2) The limitation on charitable deductions for individuals that is generally 60% of modified adjusted gross income (the contribution base) doesn't apply to cash contributions made, generally, to public charities in 2020 (qualifying contributions). Instead, an individual's qualifying contributions, reduced by other contributions, can be as much as 100% of the contribution base. No connection between the contributions and COVID-19 activities is required.

(3) Similarly, the limitation on charitable deductions for corporations that is generally 10% of (modified) taxable income doesn't apply to qualifying contributions made in 2020. Instead, a corporation's qualifying contributions, reduced by other contributions, can be as much as 25% of (modified) taxable income. No connection between the contributions and COVID-19 activities is required.

(4) For contributions of food inventory made in 2020, the deduction limitation increases from 15% to 25% of taxable income for C corporations and, for other taxpayers, from 15% to 25% of the net aggregate income from all businesses from which the contributions were made.

- **EXCLUSION FOR EMPLOYER PAYMENTS OF STUDENT LOANS**

An employee currently may exclude \$5,250 from income for benefits from an employer-sponsored educational assistance program. The CARES Act expands the definition of expenses qualifying for the exclusion to include employer payments of student loan debt made before January 1, 2021.

- **BREAK FOR REMOTE CARE SERVICES PROVIDED BY HIGH DEDUCTIBLE HEALTH PLANS**

For plan years beginning before 2021, the CARES Act allows high deductible health plans to pay for expenses for tele-health and other remote services without regard to the deductible amount for the plan.

- **PRESCRIPTION EXTENSION REQUIREMENT**

Medicare Part D plans are required to provide up to a 90-day (3 month) supply of covered Part D drugs to enrollees who request it.

- **BREAK FOR NONPRESCRIPTION MEDICAL PRODUCTS**

For amounts paid after December 31, 2019, the CARES Act allows amounts paid from Health Savings Accounts and Archer Medical Savings Accounts to be treated as paid for medical care even if they aren't paid under a prescription. And, amounts paid for menstrual care products are treated as amounts paid for medical care. For reimbursements after December 31, 2019, the same rules apply to Flexible Spending Arrangements and Health Reimbursement Arrangements.

The opinion contained in this memorandum is subject to change without notice. Please consult with your accountant/tax advisor

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