The CARES Act

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In response to the COVID-19 global pandemic, Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES) on March 27th, 2020, a $2 trillion stimulus package – the largest in history. More than anything, this is truly a rescue package chalk full of provisions to help support individual Americans, small businesses, large corporations, and, ultimately the entire economy as we find ourselves sheltering-in-place to help stop the spread of the disease. Here, we highlight some of the key provisions in the Act that are most likely to impact you and your families.

Recovery Rebates

The most anticipated feature of the stimulus package is the cash payment the government is handing out to many people. Yes, this is literally free money, but there are income limitations to qualify for receiving these recovery rebates. Calculated based on Adjusted Gross Income (AGI), individuals earning less than $75,000, Head of Households earning less than $112,500, and married couples earning less than $150,000 are eligible to receive the maximum payment of $1,200 per adult individual + $500 per child *under* 17. If your AGI is higher than these thresholds, the rebate will decrease by $5 for every $100 of income above the threshold. Therefore, the highest AGI you can have to still qualify to receive some amount of cash will essentially depend on how many (qualifying) children you have.

One tricky nuance to the AGI thresholds is that they will ultimately be based on your 2020 income. However, since you obviously won't know your 2020 income until the year is over, Uncle Sam will be using your 2019 tax return (if filed) or 2018 tax return as the basis to determine whether you qualify for the money. However, if you did not qualify for the rebate based on prior year income but your 2020 income is affected this year in such a way that it lowers your AGI to a level where you would have qualified, the good news is that you will eventually receive these payments, they just won't get to you in time to help with current cash flow needs.

Required Minimum Distribution (RMD) Waiver

While the recovery rebates will only be available to those who qualify, the RMD waiver provision is available to all who were required to take a minimum distribution in 2020. That is, if you have been, or were slated to begin, taking a Required Minimum Distribution from your retirement accounts this year, that requirement is being completely waived for 2020, no strings attached (as was the case in 2009). As RMDs are calculated based on prior year-end values, and most IRAs/401(k)s have declined in value since 12/31/2019, and no one wants to be forced to sell investments that may have lost in value, this waiver provides relief to many individuals. Moreover, this waiver covers *all* distributions that were slated for 2020 so, if you reached RMD age last year but deferred your first-year distribution to 2020, you will not be required to take either the 2019 or the 2020 distribution! If you have recurring monthly or quarterly distributions on these accounts you'd like to stop, please contact us. If you've already taken your 2020 RMD and hope to reverse it, we'll be in touch with you as more information comes out regarding the possibility of rolling over these distributions.

Retirement Plan Withdrawals

For those who are unfortunately directly affected by COVID-19, whether being diagnosed with the virus, having a spouse or dependent diagnosed with the virus, or facing financial hardship due to a change in employment because of the virus (being quarantined, laid off, reduced work hours, inability to find child care, or owning a business that has been forced to close or reduce work hours), the CARES Act allows up to $100,000 to be distributed from both IRAs and/or employer-sponsored retirement plans. These distributions are exempt from the 10% early withdrawal penalty and they are not subject to mandatory tax-withholding if they are coming from an employer-sponsored plan. Additionally, while the distribution will still count towards taxable income, it will be split evenly over the next three years thus easing the burden. However, if you find yourself with significantly lower taxable income this year due to these extenuating circumstances, it is possible to claim the entirety of this distribution in 2020. Moreover, you also have the option to roll all or part of the distribution back into the IRA at any time until 3 years after the distribution took place. Finally, if this distribution is coming from an employer sponsored plan in the form of a loan, 100% of the vested balance can be used for the loan, and any payments are deferred for up to one year.

Charitable Giving

This global pandemic has affected all of our lives in one way or another. For those that wish to give back to the community during this difficult time, the CARES Act also provides some options to optimize your charitable giving (for any charitable purpose, not just contributions to charities related to the COVID-19 crisis). If you take the standard deduction on your taxes, you have the ability to take a $300 above-the-line deduction for qualified charitable contributions up to that amount. And, if you instead itemize your taxes, the CARES Act increases the

AGI limit for cash contributions from 60% to 100% of income, with the ability to carry forward for up to 5 years any amount contributed over that limit. Subsequently, it is possible to reduce your tax liability to zero for the year through charitable contributions! However, it is important to note that Donor Advised Funds are not considered qualified contributions. Regardless, this does pose a wonderful planning opportunity if you are charitably inclined.

Unemployment

Employment had risen for a record 113 straight months before the COVID-19 pandemic. With most businesses on pause and with shelter-in-place orders, many Americans have found themselves unemployed. A record 16 million people nationwide applied for unemployment benefits in three weeks (last two weeks of March and first week of April). If you compare those claims to the 151 million people on payrolls in the last monthly employment report, that means the US has lost 10% of the workforce in three weeks. The CARES Act helps these individuals by not only expanding the availability of unemployment benefits to now cover self-employed individuals, independent contractors, and part-time workers, but also increasing state benefits by $600, extending unemployment benefits by 13 weeks, and covering the first week of unemployment as well.

Small Business Support

Small businesses are the backbone of the country, and they are also some of the businesses being hit hardest by the shelter-in-place orders. The CARES Act provides substantial support to these businesses by offering them loans to help cover various qualified expenses. The Paycheck Protection Program (PPP) authorizes up to $349 billion in forgivable loans to small business to retain and pay their employees during the COVID-19 crisis. Small businesses (including sole proprietors and self-employed individuals) and Non-Profits with less than 500 employees qualify for the program and they are eligible to receive up to $10 million or 2.5x Average Monthly Payroll Expenses for the prior fiscal year, whichever is less. Any amount equating to 8 weeks of payroll costs will be forgivable and loan proceeds may be forgiven if used for qualified expenses during an 8-week period between 2/15/2020 and 6/30/2020 including, wages and compensation, federal medical leave expenses, interest payments on mortgages, lease rent payments, and utilities (no more than 25% is to be used for non-payroll costs). These loans do not have any personal guaranty requirement, no collateral requirements, and the interest rates will be 1%. Loan payments will be deferred for six months, there is no loan fee and no prepayment fee, and if not 100% forgiven the loan is due in two years. If your business is interested and qualifies for the PPP, it's recommended to apply immediately as the funding cap will most certainly be met before the program closes on June 30th (visit sba.gov for more information).

In addition to loans, small businesses are also eligible to receive an employee retention credit equal to 50% of the employees' wages up to a maximum of $10,000 if their business was interrupted due to COVID-19 and experienced at least a 50% reduction in revenue for a given quarter when compared to that quarter's revenue in 2019. Small businesses can also defer payroll taxes by splitting them evenly between 2021 and 2022 and net operating losses for 2018, 2019, or 2020 can now be carried back up to 5 years and can now offset up to 100% of taxable income. Finally, the amount of interest small businesses can deduct is temporarily increased to 50% of earnings.

Other Provisions

Another provision of the CARES Act that is important to note is the help to those with student debt. The act suspends all payments on federal student loans through September 30th of this year, and, most importantly, the Act also suspends all interest from accruing on those loans until that time as well.

Finally, as COVID-19 is ultimately a public health crisis, the CARES Act also includes a few health-related benefits. Private insurance companies are required to cover treatment and vaccinations for the disease (when available) and testing for COVID-19 will be free for all.

There's a lot of information to digest in the CARES Act, not to mention the ever-evolving news as pieces are clarified. Much of the impact the provisions will have on you, your family, and potentially your business are dependent on your particular situation. This is why we, your Portfolio Counselors, are here for you as a resource and we look forward to continuing the conversation.