

## **What the CARES Act Means For You: Individuals**

On March 27, the President signed into law the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. This law is designed to provide emergency assistance for “individuals, families, and businesses affected by the 2020 coronavirus pandemic.” It is estimated that the Act will cost the federal government more than \$2 trillion, which is about 9% of US GDP in a normal year. The Act affects both individuals and businesses. This article addresses the benefits for individuals.

Among the provisions likely to affect the most individuals are: rebates to taxpayers, the suspension of Required Minimum Distributions, and liberalized student loan provisions.

Below are details regarding these and other provisions. For benefits targeted toward small businesses, see the accompanying article, “What the CARES Act Means For You: Small Businesses”. If you have questions about how the CARES Act will affect you, please contact your financial advisor or CPA.

### **“Recovery Rebates”, i.e., Direct Payments from Uncle Sam**

Most people (estimated at more than 90% of taxpayers) will be receiving what is called a “recovery rebate”, that is, a payment from the government in the form of a refundable income tax credit. Whether you receive a payment and how much it is depends on your tax filing status, adjusted gross income (“AGI”), and number of children.

- *Married couples:* With AGI of \$150,000 or less, you will receive a payment of \$2,400. These payments are reduced by \$5 for every \$100 above the AGI threshold. Thus, married couples will receive no payment if their AGI is more than \$198,000.
- *Individuals:* With AGI of \$75,000 or less, you will receive a payment of \$1,200. You will receive no payment if your AGI is more than \$99,000.
- *Heads of Household:* With AGI of \$112,500 or less, you will receive a payment of \$1,200. You will receive no payment if your AGI is more than \$136,500.
- *Extra payment for children:* For every child under the age of 17, you will receive an extra \$500.
- *How AGI is determine:* To determine AGI, the IRS will look to your latest filed tax return. Thus, if you haven’t yet filed your 2019 tax return, they will look at 2018.
- *Example:* A married couple with AGI of less than \$150,000 and with three children will receive \$3,900.
- *How you receive the payment:* If you receive your tax refunds or Social Security benefits by direct deposit, the government will deposit this payment into the same account. Otherwise, they will send a check your the latest home address the IRS has on record. Thus, if your address or direct deposit account has changed since the latest information you supplied to the IRS, you should notify them of

the change or file your 2019 return if you haven't done so already, Even though the filing deadline has been extended to July 15.

- *If your AGI fell in 2019:* If you haven't filed your 2019 return, and that return would show an AGI that would increase your rebate, you should file it as soon as possible despite the July 15 extension.
- *When will you receive the payment:* Under the law, the check should be sent out as soon as possible. Treasury Secretary Steven Mnuchin stated a goal of the week of April 6. Commentators estimate that the payments will more likely be received no earlier than late April. In 2008, the payments provided by the Great Recession stimulus package arrived about eight weeks after that Act became law.
- *Notification of payment:* The Treasury will send a notice of both the payment and the amount to your last know address. The notice will include a phone number to contact if you didn't receive the payment.
- *Payment considered refundable credit for 2020:* Technically, this payment is an advance of a refundable tax credit. Why does that matter? First, this payment, since it is a credit, is not taxable. Second, when you file your 2020 tax return, if your AGI indicates you should have received a higher payment, they will send that to you. But if you received more than you would have if the 2020 AGI applied, you will not have to pay any of your payment back. You will receive the payment regardless of whether you owe any taxes. And it does not reduce your 2019 refund.

### **Suspension of Required Minimum Distributions**

All Required Minimum Distributions ("RMDs") for 2020 are suspended. What if 2019 was the first year you were required to take an RMD, and you haven't yet taken it yet because of the rule allowing you to defer until 2020? That RMD is waived as well.

What if you already took your RMD for 2020? You may be able to return it to your account if you wish. If the distribution were within the last 60 days, you may be able to simply deposit it back into the account as a rollover. If more than 60 days have elapsed, and you have been impacted by the coronavirus under a broad interpretation of impacted, you can roll it back into the plan anytime within the next three years. This ability to put a distribution back does not apply, however, if the account is a beneficiary IRA.

These rules are complicated so consult an advisor or CPA if this is relevant to your situation.

### **Liberalization of Retirement Plan Distribution Rules**

The CARES Act liberalizes the distribution rules from retirement plans in those situations where the participant has been impacted by COVID-19. These rules apply to distributions of up to \$100,000 from IRAs or employer sponsored retirement plans (or a combination of both). If you qualify:

- You are exempt from the 10% early withdrawal penalty for individuals under the age of 59 1/2
- The CARES Act waives 20% the mandatory federal withholdings.
- You have three years to roll the distribution back into a retirement plan.
- You have a choice to pay the tax over three years or include in your 2020 income.

There are also liberalized provisions for taking loans from an employer-sponsored retirement plan. For individuals impacted by the coronavirus:

- The maximum loan amount is increased from \$50,000 to \$100,000.
- You can take as a loan the entire vested balance, suspending the current limitations.

- Payments otherwise owed on the plan loan through the end of 2020 may be delayed for up to one year. Note, however, that if you are making regular voluntary payments, you may have to contact your loan provider to stop those payments.

The more generous distribution and loan provisions apply if you have been impacted by the coronavirus. This is interpreted very broadly. The provisions apply if you:

- Have been diagnosed with COVID-19
- Have a spouse or dependent who has been diagnosed with COVID-19;
- Have experienced adverse financial consequences as a result of being quarantined, furloughed, laid off, or having your work hours reduced because of the disease;
- Are unable to work because you lack childcare as a result of the disease;
- Own a business that has closed or operated under reduced hours because of the disease; or
- Meet some other reason that the IRS approves. Commentators expect that this provision will be liberally applied by the IRS.

### **Student Loan Relief**

Federal student loan payments are suspended through September 30. No interest will be incurred during this time. You may need to contact your loan provider if you would like to make sure scheduled payments are suspended.

In addition, the CARES Act allows employers to exclude student loan repayments from compensation. Through the end of 2020, employers can pay up to \$5,250 for student debt purposes. And relief is provided for students with Pell Grants or subsidized federal student loans if they have to leave school early due to a “qualifying emergency”.

### **Above the line Charitable Deduction**

Even if you do not itemize, for tax years beginning in 2020 you will be able to deduct up to \$300 of charitable donations. Because the standard deductions were recently increased, only about 10% of taxpayers itemize. This provision allows many taxpayers to deduct at least some of these contributions if they are made in cash. For those who do itemize, the limit of how much you can deduct based on AGI has been removed for 2020.

### **Unemployment Compensation Benefits**

Unemployment benefits are significantly expanded under the Act. For example:

- Self-employed individuals, generally not eligible for unemployment compensation, are eligible for up to 39 weeks of benefits.
- States are allowed to forego the usual one week waiting period.
- Unemployment compensation is increased by up to \$600 a week.
- The maximum amount of weeks one can receive unemployment compensation is increased by 13 weeks.

### **Health Related Provisions**

The definition of medical expenses is expanded for Health Savings Accounts, Medical Savings Accounts, and Federal Savings Accounts. Under these new rules, over the counter medication and certain feminine products are counted as medical expenses. Other provisions include the following:

- Medicare beneficiaries are eligible to receive the COVID-19 vaccine when available at no cost.
- During this emergency period, Medicare Part D recipients must be given the ability to have up to a 90-day supply of medication.
- Telehealth services temporarily may be covered through plan years beginning in 2020 by an HSA-eligible, high deductible plan before the participant has met their deductible.