WEALTH SOLUTIONS GROUP

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Highlights of the CARES Act

Coronavirus Aid, Relief and Economic Security Act

After three rounds of draft bills, the Coronavirus Aid, Relief and Economic Security (CARES) Act has finally passed into law.

Financial & Estate Planning Department

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In response to the 2020 Covid-19 pandemic and its impact on the economy and the 2019 tax filing season, government officials have enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This bill, as signed into law by President Donald Trump on March 27th, 2020, includes temporary rulings providing tax savings and increased cash flow opportunities for individuals affected.

EXTENDED FILING AND PAYMENT DEADLINES

In response to the delay in the passing of the CARES Act, the IRS issued Notice 2020-18 which provides for the postponement of filing and payment deadlines for the 2019 tax year. All returns with an original due date of April 15th, 2020 have been postponed until July 15th, 2020. This postponement is automatic and therefore, taxpayers do not need to file an extension form (Form 4868 in the case of individual filings). The new due date also provides an extension on when individuals can make a 2019 contribution to their Roth IRAs, Traditional IRAs, SEP IRAs and HSAs. If taxpayers are still unable to file their returns by the July 15th postponed due date, they can file an extension form, which will extend the deadline to October 15th, 2020. Notice 2020-18 also automatically postpones federal income tax payments, otherwise due April 15th, 2020, until July 15th, 2020. Penalties and interest on any unpaid 2019 tax or 2020 1st quarter estimated tax payments will not begin to accrue until July 16th, 2020. It is important to note that taxpayers required to make estimated tax payments for the 2020 tax year are still required to do so by their original due dates, aside from the 1st quarter payment. Therefore, 2020 2nd, 3rd and 4th quarter estimated tax payments are still due June 15th, September 15th, and January 15th, respectively. The CARES Act does not provide relief for gift tax returns or fiscal year-end estate tax returns and therefore, the normal filing and payment deadlines still apply.

RECOVERY REBATES FOR INDIVDIUALS

In an effort to increase cash flow for low-income households who may have been impacted by an economic downturn stemming from the COVID-19 pandemic, individuals will be provided a rebate equal to the sum of $1,200 ($2,400 for a join return) plus $500 per qualifying child. These will likely be provided in the form of direct deposit or check by mail based on the taxpayer’s 2019 tax return. If a 2019 return has not been filed, the rebates will be based on the taxpayer’s 2018 tax return. In the case of social security recipients where returns from 2018 and 2019 were not filed, the rebate will be based on the individual’s 2019 social security information pulled from Form SSA-1099 or Form RRB-1099, in the case of railroad retirement benefit recipients. The allowable credit will be reduced by 5% of the taxpayer’s adjusted gross income that exceeds $150,000 for joint returns, $112,500 for head of household returns, and $75,000 for single returns. Therefore, the credit is phased out at an AGI of $198,000 or more for married filers and $99,000 or more for single filers. The credit is refundable and therefore, no minimum level of income or minimum tax liability is required to receive the full credit. To be eligible for the recovery rebate, an individual cannot be (1) a nonresident alien, (2) eligible to be claimed as a dependent on another taxpayer's return, or (3) an estate or trust. The social security numbers for the taxpayer, the taxpayer's spouse and any eligible children must also have been included on the filed tax return.

TEMPORARY SUSPENSION OF REQUIRED MINIMUM DISTRIBUTIONS (RMD)

The finalized CARES Act allows for a one-year delay in required minimum distributions, providing relief to retirees by allowing them to forgo distributions when account balances are lower, as compared to December 31st, 2019 balances upon which the distribution amount is based. This includes RMDs for defined contribution plans under 403(a), 403(b), IRAs and section 457 plans. This only applies to 2020 RMDs and does not apply to 2019 RMDs that have not been paid out yet. Inherited IRAs or retirement plan accounts required to be depleted within 5 years can skip the 2020 year, essentially extending the required timeframe to 6 years. For those that have already taken their RMD for the 2020 year, the question remains whether or not the 60 day rollover will be an option to exclude the amount from the individual's taxable income. We await further guidance from the IRS regarding the technicalities of this provision.

CORONAVIRUS-RELATED RETIREMENT PLAN DISTRIBUTIONS

Congress recognizes that the economic downfall has caused individuals to lose their jobs and source of income needed to support themselves and their families. The CARES Act provides an additional cash-flow opportunity by waiving the 10% penalty on early retirement plan distributions provided for in code section 72(t) on 2020 coronavirus-related distributions up to $100,000. A coronavirus-related distribution is any distribution made in 2020 from an eligible retirement plan to an individual (1) who is diagnosed with COVID-19, (2) whose spouse or dependent is diagnosed with COVID-19, (3) who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of child care due to COVID-19, closing or reduced hours of a business owned or operated by the individual due to COVID-19 or other factors as determined by the Secretary of Treasury. As the terms "adverse financial consequences" are somewhat subjective, it is expected that the IRS will issue further guidance regarding the third criteria. The distribution would be included in the individual's taxable income ratably over 3 years, unless they elected to include the full amount in the year of distribution. Alternatively, if an individual receives a coronavirus-related distribution from a retirement plan, they can repay the distribution amount to an eligible retirement plan within 3 years and the distribution will be treated as a rollover contribution (a non-taxable event).

QUALIFIED PLAN LOANS

The maximum amount that an individual may borrow from their retirement plan is temporarily increased to the lesser of $100,000 or 100% of the vested account balance (up from $50,000 and 50%, respectively), beginning on March 27th and ending 180 days later. Therefore, if a client decides to take a loan against his or her 401(k) plan on May 1st, 2020, he or she can take up to $100k of the vested balance and has 5 years from this date to pay the balance back. Additionally, if the due date of a plan loan occurs between March 27th and December 31, 2020, the individual is granted a 1 year extension of time to pay. For example, if a client's outstanding 401(k) loan is at the end of its term and has a final payment date of June 1st, 2020, the CARES Act extends the due date to June 1st, 2021.

PARTIAL ABOVE THE LINE CHARITABLE DEDUCTION

In an effort to encourage donations to various organizations that may have an increased need for funds, individuals who cannot itemize may take an above the line deduction for charitable cash contributions made to section 501(c)(3) organizations on their 2020 tax return, not to exceed $300. Typically, if an individual does not itemize, it is due to the standard deduction being higher than their combined charitable contributions, mortgage interest, medical expenses, etc. For those that have these larger expenses and can itemize on their 2020 return, the 60% adjusted gross income limitation for charitable contribution deductions is suspended, therefore allowing a deduction equal to 100% of their 2020 adjusted gross income.

EXCESS BUSINESS LOSSES AND INTEREST EXPENSE LIMITATIONS

The CARES Act suspends certain provisions in the Tax Cuts and Jobs Act in an effort to allow individuals to utilize losses and potentially claim refunds on their tax returns. Excess business loss limitations previously enacted under section 461(l) are retroactively suspended for tax years 2018 through 2020. The limitation on offsetting business losses against non-business income for these years has also been suspended. Individuals with large loss producing businesses and investments who may have been impacted by these limitations will want to consider amending their 2018 and 2019 returns to utilize these previously limited losses, and therefore, should contact their tax advisor. Additionally, the CARES act temporarily increases the limitation on business interest expense under section 163(j) from 30% of ATI (adjusted taxable income) to 50% of ATI. The business interest limitation was another provision included in the TCJA and impacts many taxpayers who have interests in loss-producing and debt-intensive businesses. The taxpayer may elect out of the increased limitation; however, they should consult with their tax advisor regarding the option to do so.

IMPACT ON SMALL BUSINESSES

While many features of the CARES Act focus on individuals, there were a few additions to the bill which provide support to small businesses.

The payroll protection program is a cash-flow assistance program that will provide federally guaranteed loans to small businesses with no more than 500 employees (per location in the case of businesses with multiple locations). Eligible recipients include sole-proprietors, independent contractors, and other self-employed individuals. The portion of the loans used to cover qualified payroll, mortgage interest, rent and utilities during the period of February 15th through June 30th will be eligible for SBA forgiveness.

As part of the Families First Coronavirus Response Act issued March 18th, 2020, employers with less than 500 employees are required to provide paid sick leave or family leave to employees forced to stay home due to quarantining or to care for a family member or to care for a child if their school or day care location is closed. Employers will be eligible for a refundable credit against the payroll portion of the tax on the qualified paid sick leave and qualified family leave, with limitations.

The Act also grants eligible employers a refundable credit against payroll taxes (Employee Retention Credit) equal to 50% of qualified wages paid to employees. The credit is available to employers who have fully or partially closed their business due to the COVID-19 shutdown, or whose gross receipts declined by more than 50% when compared to the same quarter in the previous year. Depending on the number of individuals employed, the credit is limited to $10,000 of wages per employee for the period March 13th through December 31st, and must be reduced by any credits claimed under the Families First Coronavirus Response Act.

Lastly, the payment of the employer portion of social security taxes for the period starting on March 27th and ending December 31, 2020 is deferred, whereby 50% is due December 31, 2021 and the remaining 50% is due December 31, 2022. This deferral also applies to self-employed individuals which will apply to the employer portion of their self-employment FICA tax.

Many of these provisions have specific restrictions, which can be found in more detail within the section by section summary published by the Senate; however, it is important that businesses consult their tax advisor regarding their eligibility to receive these benefits.