HIGHLIGHTS FOR INDIVIDUALS OF THE COVID-19 STIMULUS BILL

On Friday, March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The act, estimated at $2.2 trillion, is an economic stimulus package aimed to help individuals and businesses in the wake of the COVID-19 pandemic. In addition to the CARES Act, there have been other pieces of legislation passed and administrative steps aimed at providing relief. This is a summary of some of the recent actions impacting individuals.

DIRECT PAYMENTS TO MANY AMERICANS

As part of the CARES Act, direct stimulus payments will be sent to many Americans. This payment is a 2020 advanced tax credit, and breaks down as follows:

- **Individual Tax Filers without Dependent Children** with adjusted gross income up to $75,000 will receive a one-time, tax free payment of $1,200. The payment begins to phase out for adjusted gross income over $75,000 and phases out entirely at $99,000 for these individuals.
- **Married Couples without Dependent Children** with adjusted gross income up to $150,000 will receive $2,400. The payment begins to phase out for adjusted gross income over $150,000 and phases out entirely at $198,000 for these couples.
- **Parents with Dependent Children** will receive an additional $500 for each qualifying child under the age of 17.
- **Head of Household Filers** with adjusted gross income up to $112,500 will receive a $1,200 individual payments as well as a payment for each qualifying child.
- **Total Household Benefits** will be reduced $5 (but not below zero) for every $100 of income above the applicable threshold.

In order to be eligible, you must not be claimed as a dependent on someone else's tax return, and you must have a Social Security number. Eligibility is based on income reported on 2018 or 2019 tax returns, depending on the most recent filing year on record with the IRS. Because this is an advanced tax credit for 2020, final calculations will be based on 2020 tax returns. If an individual received an overpayment based on their 2018 or 2019 income, but would not have been eligible based off of their 2020 income, the overpayment will be forgiven. If an individual's income decreases in 2020, it is possible that they may be eligible to receive a full or partial payment after filing a 2020 tax return.

Anyone currently collecting Social Security or Railroad Retirement Benefits will not be required to file a tax return in order to receive a stimulus payment. For these individuals, the stimulus payment will be made in the same form as current benefits are being paid under the applicable retirement system. According to IR-2020-61, the IRS recommends that others (those not collecting Social Security or Railroad Retirement Benefits) who did not file a tax return for either 2018 or 2019 submit a simple 2019 tax return to be eligible to receive a stimulus payment. Up-to-date guidance and procedures can be found at IRS.gov/coronavirus.

UNEMPLOYMENT INSURANCE BENEFITS

The CARES Act increases the amount of unemployment benefits by $600 per week (up to four months, paid for by the federal government) and extends the state maximum benefit period by 13 weeks. The act also waives the one-week waiting period to collect unemployment benefits. The first week will now be paid by the federal government. Individuals not typically eligible to collect unemployment benefits, most notably self-employed individuals, independent contractors, and those with limited work history, are now eligible to collect benefits for up to 39 weeks.

STUDENT LOAN PAYMENT DEFERRAL

The CARES Act automatically suspends federal student loan payments until September 30, 2020. Interest will not accrue and penalties will not be assessed during this period. Payments can be made, but are not required. Private student loans are not automatically eligible for this exception, so it is recommended to check with the servicing company to determine if they have changed their policies.

EXCLUSION FOR CERTAIN EMPLOYER PAYMENTS OF STUDENT LOANS

The CARES Act enables employers to provide a student loan repayment benefit to employees on a tax-free basis. Under the provision, an employer may contribute up to $5,250 annually toward an employee's student loans, and such payment would be excluded from the employee's income. The $5,250 cap applies to both the new student loan repayment benefit as well as other educational assistance (e.g., tuition, fees, books) provided by the employer under current law. The provision applies to any student loan payments made by an employer on behalf of an employee after date of enactment and before January 1, 2021.

CORONAVIRUS-RELATED DISTRIBUTIONS AND PLAN LOAN CHANGES

The CARES Act temporarily changes the rules for certain distributions from employer plans and IRAs for individuals who experience adverse financial consequences due to COVID-19. The retirement plans-related provisions allowed under the CARES Act are not automtaic. Employers elect whether or not to allow these provisions for their organization's retirement plans. Not everyone qualifies for these provisions. In order to qualify:

- You, your spouse, or a dependent must have tested positive for COVID-19, or
- You must have experienced a financial hardship (quarantined, laid off, furloughed, reduced working hours, or unable to work due to the lack of child care) due to COVID-19

Coronavirus-related Distributions: The CARES Act allows a $100,000 distribution exception from defined contribution plans, such as 401(k), 403(b), 457(b), and IRAs if the distribution occurred due to a COVID-19-related hardship. Distributions from qualified accounts under this exception are:

- Free from the 10% early withdrawal penalty for individuals under the age of 59 ½
- Not subject to the normal 20% mandatory tax withholding if withdrawn from a qualified plan

In addition, taxable amounts can be included in income ratably over three years, starting in the year of the distribution. Any funds distributed are eligible for indirect rollover treatment, provided they are redeposited in an eligible retirement plan in which a rollover contribution can be made within three years of the date of the distribution. This exception is available for distributions taken January 1, 2020 through December 31, 2020.

Plan Loans: The CARES Act also increases participants' borrowing limits on employer-sponsored retirement plan loans to the lesser of $100,000 or 100% of the vested balance for individuals impacted by COVID-19. Keep in mind, loans are not typically allowed from a former employer's plan. In addition, payments on current outstanding employer plan loans can be suspended for up to 12 months. This relief became effective at the passage of the act and ends on December 31, 2020. The amount of time suspended will be added to the original term of the loan.

QUALIFIED PLANS AND IRAS: REQUIRED MINIMUM DISTRIBUTION WAIVER FOR 2020

The CARES Act waives required minimum distributions (RMDs) from defined contribution plans, such as 401(k), 403(b), 457(b), and IRAs for calendar year 2020. The RMD waiver also includes beneficiaries of these types of accounts who would normally have an RMD due. In addition, any beneficiary currently on a 5-year distribution option can ignore calendar year 2020 in calculating the 5-year period.

There is a special rule for individuals who turned 70 1/2 in 2019 and have a required beginning date of April 1, 2020. If an owner already took an RMD for 2020 (or a 2019 RMD not taken until 2020), it would be eligible for indirect rollover treatment provided it is redeposited within 60 days of the distribution. If the distribution occurred in 2019, it is not eligible for rollover treatment. If they are eligible for a coronavirus-related withdrawal (see above), they would have three years from the time of the withdrawal to complete an indirect rollover. Because withdrawals from beneficiary or inherited accounts are not eligible for rollover treatment, if the distribution has already been taken, under current rules it cannot be rolled over.

CHARITABLE DEDUCTION CHANGES

The CARES Act made changes to how cash contributions to qualified charities can be deducted. In order to be eligible, the donation must be made in cash, and cannot be made to a Donor Advised Fund or a supporting organization.

- Starting in 2020, an individual can deduct up to $300 in cash contributions to qualified charities without needing to itemize deductions. This deduction will be treated as an above-the-line deduction, allowing those who do not itemize to receive a tax benefit for their donation.
- The act also temporarily increases the 60%-of-AGI cap on cash contributions to qualified charities for tax year 2020. In 2020, an individual is able to deduct up to 100% of AGI, effectively eliminating any income tax liability, if so desired. Unused amounts can still be carried forward for up to five years.

TAX FILING EXTENSION

IRS Notice 2020-18 extended the April 15, 2020 tax filing deadline. Any individual or entity with a federal income tax return or tax payment due on April 15, 2020 is automatically allowed a postponement until July 15, 2020. Because of this postponement in the tax filing deadline, the deadline to contribute to a Traditional or Roth IRA and to a Health Savings Account (HSA) is postponed to July 15, 2020 as well.

These recent actions are intended to help alleviate some of the financial hardships caused by the COVID-19 outbreak and could be subject to change with future legislation and guidance.