

Coronavirus Tax Relief

April 2020

On March 27th, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law in order to help deal with the pandemic. Given the short time from drafting to passage, there are still many details being ironed out regarding implementation. However, at a high level the Bill addressed the following areas:

- Unemployment Insurance Provisions
- Relief for Individuals, Families, and Businesses
- Health Provisions to Support Health Care System
- Assistance to Severely Distressed Sectors of US Economy
- Coronavirus Relief Fund

Relief for Individuals and Families

As it relates to individuals, families, and businesses, here are some items to be aware of.

Recovery rebates for individuals – Refundable income tax credit that is set to begin being sent to taxpayers in the next 3 weeks. Married couples could get up to \$2,400 and other filers could get \$1,200. Generally, the taxpayers need to meet these qualifications to get rebate:

- Married filing jointly: Adjusted gross income (AGI) less than \$150,000
- Head of Household: AGI less than \$112,500
- Single: AGI less than \$75,000

In addition, there is a rebate of up to \$500 for each child a taxpayer has under the age of 17. Payments are reduced by \$50, for every \$1,000 over threshold. The AGI, filing status, and child information is pulled from your most recent tax return that the IRS has on file. If no tax return is on file, the government may use information provided on Form SSA-100 (Social Security Benefit Statement).

Within 15 days after the money is distributed to the eligible taxpayer, the government must send notice by mail to the taxpayer's last known address. The notice will indicate the method of payment (check/direct deposit), amount of payment, and phone number at IRS to report any failure to receive payment.

Coronavirus-Related Distributions – Up to \$100,000 of distributions from eligible retirement plans to individuals impacted by the Coronavirus can be made between January 1, 2020 and December 31, 2020 and the distributions will be:

- Exempt from 10% penalty
- Not subject to mandatory withholding requirements
- Eligible to be repaid over 3 years
- Income may be spread ratably over 3 years

Here is the definition of impacted individual:

- Diagnosed with the virus SARS-COV-2 or with the coronavirus disease 2019 (COVID-19) by a test approved by the CDC,
- Has spouse or dependent who was diagnosed with such virus, or
- Experienced adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus, or being unable to work due to lack of child-care due to virus.

Temporary Waiver of Required Minimum Distributions (RMD) – For 2020, the rules requiring RMDs have been temporarily waived. This also includes ignoring 2020 for purposes of calculating a 5-year rule for distribution of funds that were inherited by non-designated beneficiaries.

New \$300 Above-the-Line Deduction for Charitable Contributions – Beginning in 2020, taxpayers who use the standard deduction will now be able to deduct up to \$300 in cash contributions made during the year to qualifying organizations. Thus, it is important that individuals maintain records for charitable contributions even if taking the standard deduction.

Federal Student Loan Payments – Payments are deferred until September 30, 2020 and there is exclusion for certain employer payments of student loans.

Relief for Businesses

Certain small businesses can generally qualify for potentially forgivable loans of 2.5 times average payroll costs to cover payroll, rent, utilities, mortgage interest, group insurance premiums, etc. These loans are being governed under the Paycheck Protection Program. This program has authorized \$349 billion in potential forgivable loans to small businesses. If you or someone you know owns a small business, this program should be evaluated.

Summary

The government's role during a crisis is to step in and help its citizens. Much can and will be debated about the timing, the amounts, and the recipients of this tax relief. However, the importance of the government stepping in to help the economy cannot be overstated. Our investment thesis is predicated on this occurring. We will have more to say on this in the coming days. In the meantime, stay safe and be well.