



THE CARES ACT: KEY PORTIONS OF THE CORONAVIRUS STIMULUS BILL

The Coronavirus Aid, Relief and Economic Security “CARES” Act (referred to as the Act) was signed into law on March 27, 2020. The Act includes numerous provisions ranging from increased unemployment benefits to deferment of federal student loan payments; we have summarized key portions affecting investors and small business owners.

Relief for IRA Owners

Required Minimum Distributions (RMDs) for both IRA owners and beneficiaries have been suspended for 2020. IRA owners that had already taken an RMD in 2020 may be able to return any unwanted portion to the account and avoid income tax; such returns must be completed within 60 days of the initial distribution, or within three years if it can be demonstrated that the account owner was impacted by the coronavirus. Standards for having been impacted by the coronavirus include:

- Yourself or a spouse having been diagnosed,
- Financial losses resulting from quarantine, job loss or reduction in hours,
- Inability to work resulting from loss of childcare,
- Owning a business that has been required to close or reduce its hours,
- Or other circumstances approved by the IRS.

Additionally, distributions from IRAs or employer-sponsored retirement plans of up to \$100,000 made by individuals impacted by the coronavirus will be exempt from the 10% early withdrawal penalty and are not subject to mandatory tax withholding. Income taxes related to these distributions can be paid over three years; any portion of such distributions that are repaid to the individual’s IRA or employer plan within three years will not be taxable. This provision can be applied to distributions dating back to January 1, 2020, and is available only for IRA owners - inherited IRAs are excluded.

Loan Program for Small Businesses

The Act establishes the Paycheck Protection Loan Program for small businesses, defined as those with less than 500 employees. Eligible borrowers must make a good faith certification that the funds are needed due to economic conditions related to the coronavirus and apply for loans by June 30, 2020.

Loans will be offered through, and guaranteed by, the Small Business Administration (SBA) and will carry terms no longer than 10 years with a maximum interest rate of 4%. Loan amounts are generally limited to 2 ½ times payroll costs from the prior year, excluding compensation above \$100,000 per employee, up to a total of \$10 million.



Proceeds may be used to cover payroll, group health care costs, rent or mortgage payments and utilities. Amounts borrowed to cover these expenses in the first eight weeks after issuance may also be forgivable. Loan forgiveness is tied to employee retention between February 15, 2020 and June 30, 2020. Forgivable amounts will be reduced by the degree to which employee compensation is reduced by more than 25%. Loan amounts forgiven under the program will not be included in taxable income.

Payroll Tax Credit and Deferral

Businesses not participating in the Paycheck Protection Loan Program may be eligible for a credit toward payroll taxes. The new credit is available to businesses that have had their operations at least partially suspended by a government authority, or for whom 2020 revenue has fallen by more than 50%. The credit amount is generally 50% of wages paid, up to \$10,000 per employee.

Employers may also be able to defer payment of 2020 payroll taxes until 2021 to 2022, with half of the deferred amount due in each of those years. This deferral would also apply to the “employer” portion of self-employment taxes.

Stimulus Rebates for Individuals

The most headline making portion of the Act is certainly stimulus “rebate” payments to be received by individuals. Rebates may be up to \$1,200 for single filers and \$2,400 for married couples filing jointly. An additional \$500 is available per dependent child under the age of 17. Timing of these payments is unclear but could be as early as May.

Rebates are available for married couples filing jointly with income of up to \$150,000 and for single filers with income of up to \$75,000. The amount of the rebate reduces by \$5 for every \$100 of adjusted gross income (AGI) above these thresholds, or 5% of the income overage. For example:

- A single filer with no dependent children and AGI of \$60,000 would receive the full \$1,200. If the same taxpayer had AGI of \$90,000, their rebate would be reduced by \$750 (5% of \$15,000) to \$450.
- A married couple filing jointly with two dependent children and AGI of \$125,000 would qualify for a rebate of \$3,400 (\$2,400 plus \$500 for each child). If this same couple has AGI of \$200,000, their rebate amount would be reduced by \$2,500 (5% of \$50,000) to \$900.

Taxpayers with no dependent children will phase out of any potential rebate at \$99,000 in AGI for single filers, and \$198,000 for those married filing jointly. Eligibility will be based on the most recent tax return already on file; if it is later determined that a taxpayer would have been eligible to receive a payment based on their 2020 income, they will receive a rebate in 2021.



Repeal of Income Limitation for Charitable Contributions

The Adjusted Gross Income (AGI) limitation on cash charitable contributions is temporarily lifted from 60% to 100% with a 5-year carry forward. Donor Advised Funds continue to be excluded.

Expanded Use of Health Savings Accounts (HSAs)

In addition to a number of health care coverage provisions, the Act also extends allowable use of HSA funds to include over-the-counter medications. The deadline to make 2019 HSA contributions has also been extended, alongside the general tax filing deadline, to July 15, 2020.

More detail on these provisions, as well as the many other portions of the Act, can be found at irs.gov/coronavirus.

For more information, or to discuss these changes further, contact your relationship team or any member of our Wealth Planning Group.