

# *The Bankler Report*

March 30, 2020

## **INTRODUCTION**

On March 27, 2020, just a few hours after passing the US House of Representatives, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). This report deals primarily with Individual provisions.

### **Individual Provisions:**

- 1. Individual Recovery Rebates** – The law provides \$1,200 for singles and heads of households (\$2,400 for married filing joint returns). It also provides \$500 per qualifying child dependent under 17 years old. Rebates phase out at a 5% rate above adjusted gross incomes of \$75,000 (single) / \$122,500 (head of household) / \$150,000 (joint). There is no income floor or phase-in --all recipients will receive the same amounts, provided they are under the phase-out threshold.

**Observation** - The law states that these are “rebates” of a taxpayer’s 2019 filed tax returns. (or for tax year 2018, if a 2019 return has not yet been filed) .

- 2. Special Rules for Use of Retirement Funds** - The law waives the additional 10% tax on early distributions from IRAs and other defined contribution plans (401(k), etc.) in the case of coronavirus-related distributions. This related distribution may be made between January 1 through December 31, 2020, by an individual who (or whose family) is infected with the virus or who is economically harmed by the coronavirus. Distributions are limited to \$100,000, and may be re-contributed to the plan or IRA. Employers are permitted to amend defined contribution plans to provide for these distributions. Additionally, defined contribution plans are permitted to allow plan loans up to \$100,000 and repayment of existing plan loans is extended for employees who are affected by the coronavirus.

**Observation** - These distributions can be contributed back to the plan or “rolled over” to an IRA over a three-year period, rather than the current 60-day requirement. In addition, taxpayers could also elect to include these distributions in income ratable over a three-year period.

- 3. Temporary Waiver of Required Minimum Distribution Rules for Certain Retirement Plans and Accounts** – This provision would waive required minimum distributions in 2020, even if it is a first distribution for a taxpayer that became 70 ½ in 2019.
- 4. Partial Above-the-line Deduction for Charitable Contributions During 2020** - This provision would provide a \$300 above-the-line deduction for cash contributions generally to public charities in 2020.
- 5. Modification of Limitations on Charitable Contributions During 2020** - The law increases the limitation on charitable deductions from 60% to 100% of modified income for cash contributions generally to public charities in 2020.

- 6. Exclusion for Certain Employer Payments of Student Loans** - Under current law, an employee may exclude \$5,250 from income for an employer sponsored educational assistance program. The provision would expand the definition of expenses to include an employer paying student loan debt. The provision is effective for student loan payments made before January 1, 2021.
- 7. Pandemic Unemployment Assistance** - This provision would provide unemployment benefits to individuals who do not qualify for regular unemployment compensation and are unable to work because of the coronavirus. The law will now cover self-employed workers (including gig workers and independent contractors), part-time workers, and those with limited work histories. The CARES Act adds an additional \$600 to the weekly unemployment benefit, effective until July 31, 2020. This \$600 benefit will be taxable (like regular unemployment benefits), but it will be disregarded in determining Medicaid or CHIP eligibility. In addition, the law provides an additional 13 weeks of federally funded unemployment compensation for individuals who have exhausted their state unemployment benefits immediately through December 31, 2020.

This report only discusses specific provisions that we consider to be of general interest to individual taxpayers and is not a complete discussion of the law's contents. As with any changes in the tax laws, there are new planning opportunities to be considered. Please feel free to contact us with your specific questions.