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Client Alert: Key Provisions in the Proposed Coronavirus Aid, Relief, and Economic Security Act

BY EILEEN Y. LEE BREGER • MARCH 25, 2020

While we are awaiting the final language of the \$2 trillion stimulus package agreed to in the Senate on Tuesday night, we want to draw your attention to key provisions of the PROPOSED “Coronavirus Aid, Relief, and Economic Security Act” or the “CARES Act” that will affect individual taxpayers. We will update you with an analysis of the final legislation.

RECOVERY REBATES

The CARES Act proposes immediate tax rebates or refunds ranging from \$600 to \$1,200 (\$2,400 for joint filers). In addition, the Act would give an additional \$500 per qualifying child. The rebate is reduced by 5% of excess income for taxpayers with an 2019 adjusted gross income (AGI) greater than \$75,000 (single filers) and \$150,000 (joint filers). This results in a complete phase out for taxpayers with greater than \$99,000 AGI (single filers) and greater than \$198,000 AGI (joint filers) in 2019.

TAX FILING DEADLINE

On March 21, 2020, the IRS announced that taxpayers can defer filing federal returns and making federal income tax payments which would be due on April 15, 2020 until July 15, 2020, without penalties and interest, regardless of the amount owed. Taxpayers do not need to file any additional forms to qualify for this automatic federal tax filing and payment relief. The CARES Act aligns with the IRS announcement, changing the due date for filing federal returns to July 15, 2020.

In Massachusetts, we are still waiting for guidance from the Department of Revenue on whether the Commonwealth will also delay the filing deadline to July 15th, which would align the Massachusetts filing deadline with the federal deadline. As of this writing, the Massachusetts filing and payment deadline remains April 15th.

INCREASED ACCESS TO RETIREMENT PLAN FUNDS

Typically, distributions withdrawn before an individual reaches age 59½ years old are considered premature and are subject to a 10% early distribution penalty. The CARES Act provides greater flexibility for individuals to dip into their tax-deferred retirement plans (IRAs, 401(k)s, 403(b)s) or take a loan from such plans to cover economic hardship. An individual may take a “coronavirus-related distribution” without being subject to an additional 10% tax, if a person has been diagnosed with COVID-19 or suffered financial harm as a result of COVID-19.

MODIFIED CHARITABLE CONTRIBUTION DEDUCTION RULES

The CARES Act would allow a charitable deduction for up to \$300 of cash contributions in 2020, even if an individual

takes the standard deduction. The Act would also suspend the 50% adjusted gross income limitation for charitable cash contributions by individuals, thereby allowing individuals to receive a charitable deduction up to 100% of 2020 adjusted gross income.