Client Alert: The CARES Act Has Passed – Highlights for Individual Taxpayers

BY EILEEN Y. LEE BREGER • MARCH 31, 2020

The Coronavirus Aid, Relief, and Economic Security Act or the "CARES Act" has been signed into law and provides $2 trillion in relief to American households and businesses from the economic destabilization caused by the COVID-19 pandemic. Below are some key highlights for individual taxpayers, including special rules for holders of tax-deferred retirement accounts.

RECOVERY REBATES

The CARES Act gives tax rebates of $1,200 for single and head of household filers and $2,400 for joint filers. In addition, the Act provides an additional $500 per qualifying child. The rebate is reduced by 5% of excess income for taxpayers with a 2019 adjusted gross income (AGI) greater than $75,000 (single filers), $112,500 (head of household filers), and $150,000 (joint filers). This results in a complete phase out for taxpayers with greater than $99,000 AGI (single filers), $136,500 AGI (head of household filers) and $198,000 AGI (joint filers).

Eligibility is based on a taxpayer's 2019 income tax return. If a taxpayer has not filed a 2019 income tax return, then the IRS will base eligibility on a taxpayer's 2018 return. If no returns were filed in 2018 or 2019, information from 2019 Forms SSA-1099 (Social Security Benefit Statement) and RRB-1099 (Social Security Equivalent Benefit Statement) will be used.

Please note that estates and trusts do not qualify for the $1,200 rebate.

The payments will be sent via direct deposit to taxpayers who already have provided the Internal Revenue Service with their bank account information. For those who haven't, the checks will be mailed to them. The legislation states that the Treasury will make such payments "as rapidly as possible," but does not give a specific time frame for the payments

RELIEF RELATES TO CERTAIN RETIREMENT PLAN FUNDS

Temporary Waiver of Required Minimum Distributions (RMDs)

Required minimum distributions (RMDS) that are required to be made or that begin in 2020 are waived for individual retirement plans (IRAs) and certain defined contribution plans.

Coronavirus-Related Distributions

Typically, distributions made before an individual reaches age 59½ years old are considered premature and could be subject to a 10% early distribution penalty. The CARES Act provides greater flexibility for individuals to dip into tax-deferred retirement plans (IRAs, 401(k)s and 403(b)s) or take a loan to cover economic hardship. An individual may take an aggregate amount of "coronavirus-related distribution" of $100,000, without being subject to an additional 10% tax penalty, if a person:

1. Has been diagnosed with COVID-19
2. Has a spouse or dependent diagnosed with COVID-19 or
3. Experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to COVID-19, being unable to work due to lack of child care due to COVID-19, closing or reducing hours of a business owned or operated by the individual, or other factors as determined by the Secretary of the Treasury

A coronavirus-related distribution includes a distribution made after Jan. 1, 2020 and before Dec. 31, 2020.

Also, individuals who take a coronavirus-related distribution may choose to repay the amount taken within three years of the distribution, without regard to annual contribution limits. Repayment made during this three-year time period would avoid income tax that would otherwise be due. Such repayment will be treated as though it was originally an eligible rollover distribution transferred to an eligible retirement plan in a direct trustee to trustee transfer within 60 days of the distribution.

Those who do not repay the coronavirus-related distribution will ratably pay the tax on the amount of the coronavirus-related distribution over a three-year period.

Loans From Retirement Accounts

For a loan taken from a qualified employer plan within 180 days of enactment of the Act, the loan limit has doubled from $50,000 to $100,000. For already outstanding loans, the Act extends the time to pay back the loan by one year, if the due date for the loan falls between enactment of the Act and December 31, 2020.

MODIFIED CHARITABLE CONTRIBUTION DEDUCTION RULES

For individuals that take the standard deduction, the CARES Act allows them to take a deduction for up to $300 of cash contributions to 501(c)(3) organizations. For individuals that itemize their deductions, the Act also suspends the adjusted gross income limitation for charitable contributions.

