An Overview on the CARES Act & What It Means For Individuals

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The Coronavirus Aid, Relief and Economic Security (CARES) Act (the "Act"), a $2 trillion stimulus package, has officially been signed into law. The bipartisan deal allocates $2 trillion in an effort to mitigate the fallout from the COVID-19 crisis, including $1.5 trillion in spending and tax cuts and $500 billion in loans—$454 billion of which was allocated to the Federal Reserve as the basis for additional lending. This stimulus package can feel complex and is massive in scope. Mercadien's professionals are prepared to work with our clients to find ways to leverage the relief it is meant to provide.

The major highlights of the Act as it relates to individuals are summarized below.

Individual recovery rebate/credit

Under the CARES Act, an eligible individual is allowed an income tax credit for 2020 equal to the sum of: (1) $1,200 ($2,400 for eligible individuals filing a joint return) plus (2) $500 for each qualifying child of the taxpayer for purposes of the child tax credit. The credit is refundable. For purposes of the child tax credit, the term "qualifying child" means a child of the taxpayer, as defined for purposes of the dependency exemption, who is considered qualified and hasn't attained age 17.

Individuals who have no income, as well as those whose income comes entirely from non-taxable means-tested benefit programs such as SSI benefits, are eligible for the credit and the advance rebate.

For purposes of the credit, an "eligible individual" is any individual other than a nonresident alien or an individual for whom a dependency deduction is allowable to another taxpayer for the tax year. Estates and trusts aren't eligible for the credit. An individual who wasn't an eligible individual for 2019 may become one for 2020, e.g., where the individual was a dependent for 2019 but not for 2020. The IRS will not send an advance rebate to such an individual, because advance rebates are generally based on information on the 2019 return. However, the individual will be able to claim the credit when filing the 2020 return.

The amount of the credit is reduced (but not below zero) by 5% of the taxpayer's adjusted gross income (AGI) in excess of: (1) $150,000 for a joint return, (2) $112,500 for a head of household, and (3) $75,000 for all other taxpayers.

Each individual who was considered an eligible individual for 2019 is treated as having made an income tax payment for 2019 equal to the advance refund amount for 2019. The *advance refund amount* is the amount that would have been allowed as a credit for 2019 had the credit provision been in effect for 2019. If an individual hasn't filed a 2019 income tax return yet, the IRS will determine the amount of the rebate using information from the taxpayer's 2018 return. If no 2018 return has been filed, the IRS will use information from the individual's 2019 Form SSA-1099, Social Security Benefit Statement, or Form RRB-1099, Social Security Equivalent Benefit Statement.

The Act also outlines the delivery method of the refund as well as how over and under payments will be handled on 2020 tax returns.

No 10% additional tax for coronavirus-related retirement plan distributions

The CARES Act states that the 10% additional tax does not apply to any coronavirus-related distribution, up to $100,000. A coronavirus-related distribution is any distribution (subject to dollar limits discussed below), made on or after January 1, 2020, and before December 31, 2020, from an eligible retirement plan, made to a qualified individual.

A qualified individual is an individual (1) who is diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention (CDC), (2) whose spouse or dependent is diagnosed with said virus or disease by such a test, or (3) who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of child care due to such virus or disease, closing or reducing hours of a business owned or operated by the individual due to such virus or disease, or other factors as determined by the Secretary of the Treasury.

Distribution can be contributed back to retirement plans. Any individual who receives a coronavirus-related distribution may, at any time during the 3-year period beginning on the day after the date on which such distribution was received, make one or more contributions in an aggregate amount not to exceed the amount of such distribution to an eligible retirement plan of which such individual is a beneficiary and to which a rollover contribution of such distribution could be made, as the case may be.

Distribution can be included in income over three years. In the case of any coronavirus-related distribution, unless the taxpayer elects not to, any amount required to be included in gross income for such tax year will be so included ratably over the three-tax year period beginning with such tax year.

The CARES Act also provides flexibility for loans from certain retirement plans for coronavirus-related relief.

RMD requirement waived for 2020

The CARES Act provides that the required minimum distribution (RMD) requirements do not apply for calendar year 2020 to: (I) a defined contribution plan; (II) a defined contribution plan which is an eligible deferred compensation plan, but only if such plan is maintained by an employer; or (III) an individual retirement plan.

The RMD requirements also do not apply to any distribution which is required to be made in calendar year 2020 by reason of: (I) a required beginning date occurring in calendar year 2020, and (II) such distribution not having been made before January 1, 2020.

If all or any portion of a distribution during 2020 is treated as an eligible rollover distribution but would not be so treated if the minimum distribution requirements had applied during 2020, such distribution is not treated as an eligible rollover distribution.

Charitable Donations

$300 above-the-line charitable deduction - The CARES Act adds a deduction to the calculation of gross income, in the case of tax years beginning in 2020, for the amount (not to exceed $300) of qualified charitable contributions made by an eligible individual during the tax year.

Modification of limitations on individual cash charitable contributions during 2020 - The CARES Act provides that (with some exceptions) qualified contributions are disregarded in applying the 60% limit on cash contributions of individuals and on carryovers of excess contributions.

Increase in limits on contributions of food inventory - A donation of food inventory to a charitable organization that will use it for the care of the ill, the needy, or infants is deductible in an amount up to basis plus half the gain that would be realized on the sale of the food (not to exceed twice the basis). Under the CARES Act, in the case of any applicable charitable contribution of food during 2020, the taxable income limits are 25% rather than 15%.

Tax-excluded education payments by an employer temporarily include student loan repayments
An employee's gross income doesn't include up to $5,250 per year of employer payments, in cash or in kind, made under an educational assistance program for the employee's education (but not the education of spouses or dependents). The CARES Act adds to the types of educational payments that are excluded from employee gross income eligible student loan repayments made before January 1, 2021. The payments are subject to the overall $5,250 per employee limit for all educational payments.

Mercadien practitioners are here to support you as you navigate through the unchartered challenges ahead. We are available to offer sound financial advice and guidance so feel free to contact me with any questions at fpina@mercadien.com or 609.689.2319.