

CARES ACT

This bill was signed into law on March 27th, 2020. The following is a synopsis of a webinar Kelly Pedersen participated in the same day. It was presented by Michael Kitces & Jeffrey Levine on March 27th summarizing some of the items in the bill. This memo is direct from the information provided in this presentation meant to provide a high level outline of items that may help you in your personal life, business or that would help someone you know. It is meant to bring awareness of questions you could be asking during these difficult times. There is still much to learn in this bill but hopefully this provides fodder for planning.

SECTIONS INCLUDE

Rebates
Coronavirus Related Distributions from Retirement Accounts
Enhancement to Loans from Employer Plans
RMDs Waived In 2020
Above The Line Charitable Deductions
Unemployment Compensation
Small Business Provisions
Paycheck Protection Program
Employee Retention Credit
Deferral of Payment of Payroll Taxes
Net Operating Loss (NOL) Rules Loosened
Relief for Student Borrowers
Health Care Related Rules

REBATES

- Refundable Tax Credit
 - \$1200 per person and \$500 per child under age 17 (not including age 17)
 - Phaseouts start at \$75,000 for single filers and \$150,000 for joint filers
 - Phaseout is \$5 for every \$100 of income over threshold
 - This money will reach 90% of all taxpayers
 - This income will NOT be taxed.
 - Made payable based on 2018 and 2019 tax returns already filed. If there is a year of discrepancy, it will be tied up on the 2020 return.
 - As of yet, it is unclear on how and when the checks get paid but it's likely you will get a notice in the mail on where it will be deposited.
 - Likely options are:
 - If you currently get S.S. deposits to an account, it will show up there.
 - If you have tax refunds sent to an ACH account number, it will go there.
 - If you have CLOSED and account, be sure to change that with the IRS asap.

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CORONAVIRUS RELATED DISTRIBUTIONS FROM RETIREMENT ACCOUNTS

- Up to \$100,000 from and combination of IRAs or employer plans
- Must be made in 2020
- Must be because:
 - Have been diagnosed with COVID-19
 - Have spouse/dependent diagnosed with COVID-19
 - Experience adverse financial consequences as a result of being quarantined, furloughed, being laid off, or having work hours reduced because of the disease, or
 - Are unable to work because they lack childcare as a result of the disease, or
 - Own a business that closed or operated under reduced hours b/c of the disease or
 - Meet some other reason that the IRS decides to say is ok.
- Exempt from 10% early withdrawal penalty
- Not subject to mandatory w/h from employer plan
- Eligible to be repaid over 3 years
 - Effectively a roll back into the account
- Still taxable but income may be spread over 3 years (default option)
 - Unless 2020 is a low-income year and client doesn't want to spread it out

ENHANCEMENT TO LOANS FROM EMPLOYER PLANS

- Maximum loan is usually limited to \$50,000 (or half your vested balance) and is now \$100,000 and now up to 100% of the vested balance may be used.
- Any payment on the plan loan otherwise owed may be delayed 1 year.

RMDS WAIVED in 2020

- RMDs are suspended for 2020
 - Includes those who delayed their RMD from 2019 (the year turned 70 ½)
 - Includes IRAs and also employer retirement plans
- Also suspends RMDs that may have otherwise needed to be taken
 - Stretch IRA RMDs
 - 2020 ignored as a year for the 5 year rule
 - Inherited IRAs
- What if RMDs were already taken in 2020
 - It depends: If you already took it
 - 60 day rollover back into account, watch out for 1 rollover per year rule
 - Rollover as a Coronavirus-Related Distribution – if eligible
 - No option to roll back for beneficiary RMDs from Inherited accounts.

ABOVE THE LINE CHARITABLE DEDUCTIONS

- “Qualified Charitable Contribution”
- Available for those who do not itemize
 - But only available for those who do not itemize and claim the standard deduction
 - Limited to \$300, must be made in cash
 - Must go direct to a 501(c)(3) charity
 - Not to a donor-advised fund
 - Not to a 509(a)(3) supporting organization

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UNEMPLOYMENT COMPENSATION

- Pandemic Unemployment Insurance
 - Unemployment compensation for those who don't qualify for anything else – like self employed
- Elimination of Waiting Period (typically a week)
 - Federal gov't will cover first week of unemployment
- Bonus Check
 - Regular state unemployment benefit bumped by \$600/week
 - Up to 4 months
- Extension of Benefits
 - 13 extra weeks of unemployment insurance
- Incentive to create Short time Compensation Programs
 - Federal gov't to pay 50%

SMALL BUSINESS PROVISIONS

Paycheck protection program:

- Loan that is fully guaranteed by the Small Business Administration
 - Issued by SBA approved lender and others specially designated
 - Must be applied for by June 30th of 2020
 - Maximum duration of 10 years
- Eligibility (in general)
 - Less than 500 employees, or employee size standard under NAICS Code if larger
 - Good-faith certification that the loan is necessary due to the uncertainty of current economic conditions caused by COVID -19. Includes cost of qualified health care expenses allocable to wages
 - Maximum loan equals the lesser of \$10million or 2.5x average monthly payroll cost of previous year (excluding employee comp > \$100,000)
 - Proceeds may be used for
 - Payroll costs
 - Group Health Insurance Premiums and other healthcare costs
 - Salaries and/or commissions
 - Rent or Mortgage interest (excluding amounts pre-paid)
 - Utilities
 - Other business interest incurred prior to February 15,2020
- Forgivable portion of the loan equals 100% of amounts spent on the following items during the 8 week period following the issuance of the loan
 - Payroll costs, excluding prorated amounts for individuals with compensation greater than, \$100,000
 - Rent pursuant to a lease in force before February 15, 2020
 - Electricity, gas, water, transportation, telephone, or internet access expenses for series which began before February 15, 2020
 - Group health insurance premiums and other healthcare costs.
- But only if...
 - Same # of employees from February 15, 2020 through June 30, 2020
 - During either the same period in 2019
 - January 1, 2020 until February 15, 2020
 - No employees with compensation under \$100,000 have reductions of >25% compared to the most recent quarter
- If you already laid off EE, if you hire them back quickly, this can be rectified.

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PAYCHECK PROTECTION PROGRAM

- Other benefits include
 - Discharged debt nontaxable
 - Maximum interest rate is 4%
 - Initial Payments will be deferred for 6 to 12 months

EMPLOYEE RETENTION CREDIT

- New credit against payroll taxes
 - 50% of wages paid to each employee up to a max of \$10,000 of wages per person
- Must qualify by either:
 - Having operations partially/fully suspended due to government-required suspension of operations
 - Have a quarter with <50% of revenues (not profit) from same quarter 2019
- Will qualify to receive until earlier of
 - End of 2020
 - When suspended operations resume for the quarter, or when revenue >80% of same calendar quarter of 2019

DEFERRAL OF PAYMENT OF PAYROLL TAXES

- Employers will be permitted to defer 2020 payroll taxes
 - 50% will be due on 12/31 of 2021
 - Remaining 50% will be due on 12/31 of 2022
- Applies to self-employed individuals as well (only 'employer' portion)

NET OPERATING LOSS (NOL) RULES LOOSENED

- Previously, NOLs could only be carried back 2 years and forward up to 20 years (no indefinitely)
- CARES Act allows NOLs to be carried back up to 5 years
 - Applies for 2018, 2019, 2020 NOLs
 - Accelerates a tax refund for current/immediate use
 - NOLs will now be able to offset 100% of taxable income (up from 80%)

RELIEF FOR STUDENT BORROWERS

- Federal student loan payments deferred
 - No payments required until September 30th of 2020
 - No interest will accrue during the interim
 - Will still count towards loan forgiveness programs
 - Required payments are suspended, but voluntary payments are not prohibited
 - Involuntary debt collections on Federal student loans also suspended.
 - YOU MUST STOP the payment themselves if they want to. It's not automatic
- Employers can exclude student loan repayments from compensation
 - Employers have through the end of the year to pay up to \$5250 for student debt purposes
 - Payments are excluded from employee income
 - Must still be coordinated with regular \$5250 limit for tax free education reimbursements
- Pell Grant & Subsidized Federal Loan Relief for Students Leaving School
 - Periods of enrollment will not include a semester not complete due to a qualifying emergency

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HEALTH CARE RELATED RULES

- Definition of Medical Expenses expanded
 - Specifically for HSAs, Archer MSAs and FSAs
 - Eligible medical expenses will now include over the counter medication
 - Also expanded to include menstrual care products
- Other Notable changes
 - Medicare beneficiaries to receive no cot COVID-19 vaccine (when available)
 - Par D recipients can request up to 90 day supply of medication
 - Telehealth services temporarily covered by HSA Eligible HDHP

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