

# The CARES Act: Individuals

## Understanding how the stimulus bill affects individuals

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Given the enormity of the 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act, there is much to consider in determining how provisions in the stimulus bill can help individuals.

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### OVERVIEW

Passed on March 27, 2020, the CARES Act provides an estimated \$2 trillion in fiscal stimulus to combat the economic impact of COVID-19, and provides the healthcare industry the financial support, equipment and protection it needs to combat the virus.

As the COVID-19 pandemic has affected life in ways we couldn't imagine, the deadly virus and efforts to contain the spread have prompted a significant government response. The legislation is intended to combat the economic risks associated with a slowdown in individual spending, and helps businesses of all sizes avoid closures and employee layoffs. It also provides necessary funds to help support states and municipalities.

This document highlights the major provisions that are aimed at providing relief to individuals affected by the coronavirus.

### RECOVERY REBATES FOR INDIVIDUALS

The act provides payments to taxpayers (subject to income limits) in the way of a credit of \$1,200 per individual and \$2,400 per married couple filing jointly. There is also a \$500 credit per qualifying child under the age of 17. The payment is reduced by 5% of the individual's adjusted gross income over \$75,000 (\$112,500 for head of household; \$150,000 for joint filers). The payment will fully phase out when income reaches \$99,000 for single filers, \$146,500 for head of households with one child and \$198,000 for joint filers. Individuals who have no income, as well as those whose income comes from non-taxable sources, also qualify for the advance payment. The eligibility for the payment is based on the taxpayer's 2019 tax return. If the return has not been filed, eligibility is based off of the 2018 tax return. For most Americans, the credit will arrive in April 2020 through direct deposit, while others may receive a check in the mail.

### IMPORTANT TOPICS

Recovery rebates for individuals

Retirement plans, distributions and contributions

Expansion of unemployment insurance benefits

Expansion of health coverage

Homeowners and renters

Relief for student loan borrowers

## RETIREMENT PLANS, DISTRIBUTIONS AND CONTRIBUTIONS

### PENALTY-FREE DISTRIBUTIONS FROM RETIREMENT ACCOUNTS

A coronavirus-related distribution of up to \$100,000 can be made from IRAs, employer-sponsored retirement plans or a mix of both by an individual impacted by the coronavirus. A coronavirus-related distribution includes one that is made to:

- An individual diagnosed with COVID-19.
- A spouse or dependent of a person diagnosed with COVID-19.
- An individual who experiences adverse financial consequences as a result of being quarantined, furloughed or laid off, or having work hours reduced due to COVID-19.
- An individual who is unable to work due to lack of childcare due to COVID-19.
- An individual who has closed or reduced hours of a business owned or operated by the individual due to COVID-19.
- Other factors as determined by the Secretary of the Treasury.

While withdrawals from retirement plans will likely have a negative impact on retirement plans, such withdrawals for individuals under age 59 1/2 will avoid the 10% federal premature distribution penalty tax. The distribution will still be taxed as ordinary income.

A taxpayer can elect to include all of the income from a coronavirus-related distribution in their 2020 income or spread the income over three years (2020, 2021 and 2022).

In addition, the affected individual has up to three years after the day of the distribution to roll over all or a portion of the amount back into the retirement account. The rollover can be made as a single or multiple repayment over that three-year period. In instances where taxes have been paid on a withdrawal, the individual should consider filing an amended tax return.

### LOANS FROM QUALIFIED PLANS

While the CARES Act has expanded the loan provisions for employer-sponsored plans, they are not mandatory and it is up to each plan sponsor to modify their plan documents in order to increase these limits.

Also, a participant does not need to exhaust loan options first in order to obtain a hardship loan. The COVID-19 distribution is not a hardship distribution – it is a new distributable event.

## TEMPORARY WAIVER OF REQUIRED MINIMUM DISTRIBUTIONS (RMDs)

Required minimum distributions (RMDs) for qualified account holders are waived for 2020. RMDs for inherited or beneficiary-qualified account holders are also waived for 2020. If an individual had a required beginning date (RBD) in 2019 and delayed until 2020, they can waive both of the RMDs for the year. This only applies to those who turned 70 1/2 in 2019. According to IRS Notice 2020-23, If an RMD was/is taken between February 1 and May 15, and if that RMD is rolled over by July 15, 2020, then the 60-day rollover rule is waived. RMDs taken in January do not qualify for this relief, nor do any RMDs taken after May 15. In addition, despite this relief, the one-per-year rule still applies to all rollover situations, and inherited IRA RMDs cannot be rolled over.

Qualified charitable distributions (QCDs) can still be taken for individuals who are charitably inclined. They have to be at least age 70 1/2. QCDs will not count toward RMDs for 2020 since they have been waived.

## CHARITABLE CONTRIBUTIONS

For 2020, cash charitable contributions can be deducted up to 100% of adjusted gross income (AGI). Previously, a taxpayer could only deduct up to 60% of AGI for cash contributions (increased in 2018 from 50% of AGI due to the 2017 Tax Cuts and Jobs Act). Excess charitable contributions can still be carried over five years.

The act also provides for a new above-the-line deduction for taxpayers who can't itemize deductions on their federal tax return called qualified charitable contributions. The maximum amount is \$300. Contributions must be made in cash and are prohibited from being made to donor advised funds or 509(A)(3) supporting charities (the supporting organization is a charity that carries out its exempt purposes by supporting other exempt organizations, usually other public charities). The act states this starts in 2020 but does not provide any ending year.

## MINIMUM CONTRIBUTIONS TO SINGLE-EMPLOYER PENSION PLANS ARE DELAYED UNTIL JANUARY 1, 2021

Sponsors are able to delay 2020 required contributions to pension plans until January 1, 2021. Contributions would be due with interest accrued at the plan's effective rate.

Single employer defined benefit pension plan minimum required contributions due during 2020 can be delayed to January 1, 2021 (adjusted for interim earnings). This provision will also provide an option to use an alternative funding target percentage.

## EXPANSION OF UNEMPLOYMENT INSURANCE BENEFITS

Unemployment insurance benefits are governed by each state and funded by federal and state coffers, as well as private companies that pay employment tax. Each state determines the benefit maximum and duration of benefits for recipients that qualify. The CARES Act has provided multiple unemployment protections above and beyond what each state provides.

Anyone who couldn't work because of coronavirus may receive benefits. This includes those who were furloughed, laid off, became ill or had to care for someone else afflicted with the virus. Furthermore, the act extends benefits to the self-employed and independent contractors, a group that doesn't normally qualify for unemployment. When applying for benefits, most states have a one-week elimination period for unemployment benefits. Under the CARES Act, the federal government will reimburse all states that waive this one-week elimination period. Furthermore, the federal government will fund an additional \$600 stacked on top of a recipients' weekly state benefit. The act also extends the length of time an individual may receive benefits for an additional 13 weeks on top of the state maximum.

## EXPANSION OF HEALTH COVERAGE

The act provides that over-the-counter (OTC) medications and menstrual care products will now be considered qualified medical expenses for medical savings accounts such as health savings accounts (HSAs), Archer medical savings accounts (MSAs) and flexible spending accounts (FSAs). In the past, OTC medicines required a prescription to be an eligible expense.

HSAs will now cover telehealth and remote care services pre-deductible for plan years that begin on or before December 31, 2021. Generally, HSAs would only cover preventive care before the deductible is met but cannot pay for non-preventive services until the deductible has been met.

If or when a COVID-19 vaccine comes available, it will be free to those on Medicare. Medicare Part D recipients must be given the ability to have a 90-day supply of medication prescribed and filled during the COVID-19 emergency period.

## HOMEOWNERS AND RENTERS

### FORBEARANCE OF MORTGAGE PAYMENTS

If your mortgage is backed by the federal government, this provision allows you to suspend payments for up to 12 months

(initial 180 days with an option to extend an additional 180 days). To request forbearance on your federally backed mortgage, contact your mortgage company. You must affirm that you are experiencing hardships during the COVID-19 pandemic. No further documentation is required. You may halt the forbearance at any time.

During any forbearance period, you may not be charged penalties, interests or fees that would not have been charged if you had made your payments on time and in full. Additionally, you will not be reported to credit bureaus for late or missed payments provided you are in a forbearance program. Be sure to understand the terms of the forbearance (i.e., 3-month balloon payment due at the end of the forbearance period) and understand how it may impact escrow accounts. Make sure to get the details in writing.

With the exception of vacant properties, the servicer of a mortgage could not initiate a foreclosure, move for a foreclosure or order of sale, or execute a foreclosure sale in the 60 days following March 18, 2020.

## TENANT PROTECTION

The CARES Act provides important protections for tenants during the coronavirus outbreak. It places a federal moratorium on eviction of tenants for non-payment of rent while also prohibiting landlords from charging fees, penalties or other charges to the tenant related to nonpayment of rent. Furthermore, landlords may not evict a tenant after the moratorium expires except on 30-day notice. The moratorium on evictions went into effect on March 27, 2020, and lasts for 120 days. The federal moratorium pertains to "covered dwellings" or rental properties that receive any federal assistance, which include:

- Dwellings that participate in the Covered Housing Program of the Violence Against Women Act.
- Dwellings that participate in the Rural Housing Voucher Program.
- Dwellings that have a federally backed mortgage loan.
- Dwellings that have a federally backed multi-family mortgage loan.

Landlords should know or have access to whether their properties would fall under one of these categories.

Many states and municipalities are also imposing their own restrictions. If those moratoria are less strict, the federal moratorium would apply.

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## RELIEF FOR STUDENT LOAN BORROWERS

There are a lot of provisions for individuals affected by COVID-19, including financial aid repayments, work study grants, temporary relief for student loan borrowers, exclusions of federal direct loans and Pell Grants for student who can't complete the semester due to qualifying emergency, and modification of institutional grants.

Required payments on federal student loans have been suspended through September 30, 2020. During this time, no interest will accrue on this debt. Note while required payments are suspended, voluntary payments are not prohibited. Unfortunately, that means automatic payments will continue unless individuals take proactive measures to contact their loan provider and pause payments.

Over the next six months, borrowers will still have the opportunity to continue paying down the principal on their loans, should they choose to do so. The Department of Education has already set federal student loan interest rates at 0% for a 60-day period beginning March 20, 2020.

Some other considerations for student loan borrowers include:

- If you can continue to pay student debt, it might make sense to take advantage of the 0% rate.
- Use the funds you would have applied toward the student loan to pay down high interest debt, such as credit cards.
- Save the payments you would have made to create or replenish an emergency savings account. Ideally, an emergency fund will cover three to six months of expenses.
- Employers may provide a student loan repayment benefit to employees on a tax-free basis. The provision applies to any student loan payments made by an employer on behalf of an employee after date of enactment and before January 1, 2021. If this applies to you, take advantage of the tax-free payment.

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Let's work together with your tax and legal professionals to determine how the legislation affects you directly.

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While we are familiar with the tax provisions of the issues presented herein, as financial advisors of Raymond James, we are not qualified to render advice on tax or legal matters. You should discuss tax or legal matters with the appropriate professional.

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