



CARES ACT

The Coronavirus Aid, Relief and Economic Security (CARES) Act, the third item of federal legislation enacted in response to the unprecedented COVID-19 pandemic, was passed by Congress on March 27th and swiftly signed into law the same day.

The scope of the relief bill is far-reaching, providing financial assistance through channels ranging from additional funding for medical institutions to emergency grants for small businesses to targeted relief via federal tax law changes. These tax law changes, many of which were given retroactive effect, will help taxpayers and businesses cope with cash flow issues over the coming weeks and months by reducing the tax burden and/or providing a larger refund than would be allowed under pre-CARES Act law.

In this article, we are focusing on the individual provisions within the law.

Charitable Contribution Deductions

Taxpayers that do not itemize can now take a new \$300 above-the-line tax deduction for charitable contributions. The contribution must be made in cash to a qualified organization to qualify. Taxpayers that do itemize will benefit from increased limits on charitable contributions. The previous limitation of 60% of modified adjusted gross income doesn't apply to cash contributions made, generally, to public charities in 2020. No connection between the contributions and COVID-19 activities is required. Contributions to a supporting organization or a donor-advised fund do not qualify for either of these deductions.

Permissible Withdrawals from Retirement Plan Funds

The CARES Act allows participants of qualified retirement plans (including individual retirement accounts (IRAs)) to withdraw up to \$100,000 from qualified retirement accounts for COVID-19 related purposes without incurring the 10% penalty on early distributions. Any individual who receives such a COVID-19-related distribution may repay the distribution to the eligible retirement plan or IRA within three years of taking the distribution, in one or more contributions.

If the participant or IRA owner does not intend to repay the withdrawal, they may elect to include the withdrawal in income ratably over a three-year period beginning with the year in which the distribution was taken.

COVID-19 related reasons include distributions from January 1, 2020, through December 31, 2020, to an individual (a) diagnosed with COVID-19, (b) whose spouse or dependent is diagnosed with the virus, or (c) who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, working reduced hours, being unable to work due to lack of child care, closing or reducing hours of a business, or other factors as determined by the Treasury Department.

Retirement Plan Loans Expanded

Prior to the CARES Act, retirement plan loans were capped at the lesser of (i) \$50,000; or (ii) the greater of fifty percent (50%) of the participant's vested accrued benefit or \$10,000. But effective March 27, 2020, through December 31, 2020, participants may elect to take a plan loan in an amount up to the

lesser of (i) \$100,000; or (ii) the greater of one hundred percent (100%) of the participant's vested accrued benefit or \$10,000. The Act also delays the loan repayment date by one year for any loans with due dates between March 27, 2020, and December 31, 2020.

In order to take advantage of these expanded loan amounts and loan payment deferrals, the individual must be a qualified individual who was: (a) diagnosed with COVID-19, (b) whose spouse or dependent is diagnosed with the virus, or (c) who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, working reduced hours, being unable to work due to lack of child care, closing or reducing hours of a business, or other factors as determined by the Treasury Department.

If an employer maintains a qualified retirement plan with a loan option, the plan must be amended to adopt these loan expansion provisions by December 31, 2022, to maintain its qualified status.

Required Minimum Distributions Suspended

The CARES Act temporarily suspends all required minimum distributions due from qualified retirement plans and individual retirement accounts in calendar year 2020. Specifically, any required minimum distributions due from January 1, 2020, through December 31, 2020, are waived. This includes distributions that would have been required by April 1, 2020, due to the account owner's having turned age 70 1/2 in 2019.

IRAs and HSAs

Individual taxpayers are allowed to make contributions to an IRA for 2019 until July 15, 2020.

You may also make contributions to your health savings account ("HSA") or Archer Medical Savings Account ("MSA") for 2019 at any time up to July 15, 2020.

Student Loans

Borrowers with federal student loans are permitted to defer payments penalty free until September 30, 2020. Borrowers who are not in default will automatically have their interest rate set to 0% for at least 60 days.

HSA and MSA Accounts

For amounts paid after December 31, 2019, the CARES Act allows amounts paid from Health Savings Accounts and Archer Medical Savings Accounts to be treated as paid for medical care even if they aren't paid under a prescription (i.e. - "over the counter" medications). And, amounts paid for menstrual care products are treated as amounts paid for medical care. For reimbursements after December 31, 2019, the same rules apply to Flexible Spending Arrangements and Health Reimbursement Arrangements.

Excess Business Losses

The limitation imposed by the Tax Cuts and Jobs Act of 2017 (TCJA) on the deduction of excess business losses will not apply for tax years 2018-2020. The excess business loss is the excess of the taxpayer's aggregate trade or business deductions for the year over the sum of the taxpayer's aggregate trade or business gross income or gain plus \$250,000 (single) or \$500,000 (jointly). This change suggests filing an amended return if this limitation was applied on a tax return for 2018 or 2019.

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