

On March 27, 2020, the President signed the Coronavirus Aid, Relief and Economic Security (CARES) Act. The Act will cost \$2.2 trillion, the most expensive piece of legislation ever passed, and will provide various tax relief provisions for individuals as well as businesses. Below are some of the highlights that will affect individuals.

### **Recovery Rebates**

Under the CARES Act, individual taxpayers will receive advanced refunds of credits against 2020 taxes equal to \$1,200 for individual filers or \$2,400 for joint filers, plus \$500 for each qualifying child. Eligibility and credit amounts will be determined based on 2018 adjusted gross income (AGI) unless the taxpayer has filed their 2019 tax return. The credit will begin to phase out at AGI levels of \$75,000 for single filers, \$112,500 for heads of households, and \$150,000 for joint filers. The rebates are completely phased out at AGI of \$99,000 for single filers, \$136,500 for heads of households, and \$198,000 for married filing joint.

Although the advance credit is based on earlier tax returns, the rebate actually applies to the 2020 tax year. The advance credit reduces the amount of the taxpayer's credit for the 2020 tax year. If the taxpayer previously authorized the IRS (after January 1, 2018) to direct deposit tax refunds, the IRS may pay the rebate amount into the same bank account, otherwise a check will be sent. No later than 15 days after distributing a rebate payment, the IRS will mail a notice to the taxpayer indicating how the payment was made, the amount of the payment, and a phone number for reporting any failure to receive the payment.

The Act indicates that rebates are to be issued as rapidly as possible, but no specific timeline has been announced.

### **Charitable Contributions**

The CARES act offers enhanced tax incentives for making charitable contributions for the 2020 tax year including a \$300 above-the-line deduction for individuals that do not itemize. In addition to the above-the-line deduction, taxpayers that itemize can now make cash donations up to 100% of their (AGI). Previously charitable contributions were capped at 60% of AGI, with the excess carrying forward for up to five years.

### **Retirement Plans**

The CARES act waives the normal 10% additional tax on early distributions from retirement plans (under age 59 ½, with no known exceptions) for coronavirus-related distributions up to a maximum of \$100,000. A coronavirus-related distribution is any distribution made on or after January 1, 2020 and before December 31, 2020 from an eligible retirement plan. The penalty waiver applies to qualified individuals, which are defined as individuals:

- Diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the CDC
- Whose spouse or dependent is diagnosed with either of the above viruses by such test
- Who experiences adverse financial consequences as a result of being quarantined, 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 the virus or disease, closing or reducing hours of a business owned or operated by the individual due to the virus or disease

In addition to the penalty waiver, the taxpayer can include qualifying distributions in taxable income ratably over a three-year tax period. The distribution may also be paid back within a three-year period and be treated as a direct trustee to trustee rollover contribution.

The Act also waives required minimum distributions from retirement plans or IRAs for calendar year 2020 regardless if the taxpayer has been impacted by the pandemic. Previously, required minimum distributions were required annually when the taxpayer reaches age 72.