Coronavirus relief: CARES Act and tax filing extension

CARES Act

In response to the coronavirus pandemic, Congress has enacted the CARES Act (Coronavirus Aid, Relief and Economic Security Act) which has been signed into law by President Trump.

The bill includes relief provisions related to health care, business, and individuals. *The focus of this update is on select tax aspects of the legislation for individuals.* We will also be sharing a companion piece, *Wealth Planning Opportunities in Volatile Times,* discussing planning considerations in light of not only the distressed markets, but the CARES Act and recent tax filing and payment relief provided by the IRS.

Please note that the information below is not intended to be legal or tax advice and you should not rely on it as legal or tax advice. Each person's tax situation is unique and the proposed legislation will impact each person differently. Therefore, you should discuss with your tax advisor how the legislation might impact your situation and the planning considerations that are right for you.

Recovery rebate for individuals.
The headline provision of the CARES Act is the tax-free rebate payment of $1,200 to most adults and $500 for children under 17. College students or other adults who can be claimed as a dependent by a parent are not eligible to receive rebate payments. Those who cannot be claimed as a dependent in 2020 will receive their rebate payment when filing their 2020 tax return.

Income limitations apply and may reduce or eliminate your rebate payment. The Treasury will use Adjusted Gross Income (AGI) from your 2019 tax return to determine your rebate payment amount. If you have not yet filed your 2019 tax return, then your 2018 tax return will be used.

Payments will be reduced by $5 for every $100 above the applicable AGI threshold determined as follows in the next column.

- Single: $75,000 with phase-out up to $99,000
- Married Filing Jointly: $150,000 with phase-out up to $198,000
- Head of Household: $112,500 with phase-out up to $136,500
  - *The rebate payment is fully phased-out and not available for AGIs over $99,000 for individuals, $198,000 for married filing jointly, and $136,500 for head of household*
  - AGI phase-out amounts increase by $10,000 for each minor child
  - Example: *A married couple with two minor children will phase out at $218,000 ($198,000 plus $20,000 increase for the two children)*

If you do not receive a rebate payment now because your AGI exceeds these thresholds, but would be eligible based on your 2020 AGI then you will receive your payment when filing your 2020 tax return. There is no reimbursement requirement if you receive a payment now but your 2020 AGI exceeds the threshold.

Payments will be made electronically based on the direct deposit information included on your tax return or by mail if you did not include direct deposit information. If that account is no longer active, then you will receive a letter from the IRS with instructions on how to arrange for delivery of your payment.

Expanded charitable deductions.
For 2020 the CARES Act increases the deductibility limit for cash contributions to charities from 60% of AGI to 100%. This increase applies only for this year.

In a permanent change, up to $300 of cash contributions made directly to a qualifying charity can now be claimed as an above-the-line deduction. This will provide a tax benefit for charitable contributions for those who take the standard deduction and are not able to itemize. This deduction is only available to taxpayers who do not itemize their deductions.

Charitable contributions made to a Donor Advised Fund and non-cash gifts (including appreciated stock) are explicitly excluded from both these new provisions.

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Retirement account RMD waivers.
The CARES Act temporarily waives required minimum distributions (RMDs) from all retirement accounts for 2020. If you have already taken your 2020 RMD you may be able to return that payment by utilizing the 60-day rollover rule, but should consult with your tax preparer to ensure this is done correctly. RMDs already made from inherited retirement accounts cannot be reversed.

Early withdrawals from retirement accounts.
The CARES Act allows those affected by the Coronavirus to withdraw up to $100,000 from a qualified retirement account before the end of the year without being subject to a 10% early withdrawal penalty. For tax reporting purposes, the income from a Coronavirus related distribution may be split evenly over 2020, 2021 or 2022 tax years or can be elected to be included entirely in 2020 income. Individuals who take such a distribution will have up to three years to return all or any portion of the distribution back to their retirement account and can file an amended tax return to claim a refund for any taxes paid that are attributable to the returned distribution.

Additionally, a participant loan from certain employer-sponsored retirement plans for Coronavirus related relief is allowed up to the lesser of $100,000 or 100% of the account balance. Any payments otherwise owed on a retirement plan loan from now through the end of 2020 may be delayed for up to one year.

Net Operating Loss (NOL) opportunities.
The Tax Cuts and Jobs Act ("TCJA") enacted to apply for tax years beginning in 2018, limited the amount of taxable income a business net operating loss ("NOL") could offset to 80% and eliminated a taxpayer's ability to carryback these NOLs. The CARES Act restores NOLs to pre TCJA levels for 2018, 2019 and 2020.

With this relief, NOLs can now offset 100% of taxable income for 2018, 2019 and 2020 rather than 80%. Net operating losses incurred in these years can now also be carried back to the previous five years for a refund. Taxpayers with losses in those years should review prior year tax returns to determine whether to carryback their NOLs to receive tax refunds.

Tax filing extensions

The April 15 filing and payment deadline for all 2019 federal individual income tax returns has been extended by the Treasury Department to July 15, 2020 with no dollar limit on the amount of tax due. The extension also applies to 2020 first quarter estimated tax payments. The extension does not apply to second quarter estimated tax payments which at least for now remain due June 15, 2020.

You do not need to file for an extension or submit any additional forms to delay filing and making tax payments until July 15. No interest or penalties will be charged for taking advantage of this extended deadline. If you are due a refund you should consider filing as soon as your tax return is prepared so you can receive those funds.

Deadlines for making a 2019 contribution to an IRA or HSA have also been extended to July 15.

If you previously filed your federal tax return and scheduled an electronic withdrawal for your tax payment on or before April 15 you will need to call the IRS if you want to cancel that payment.

Many states including Arizona, Illinois, Minnesota and Wisconsin have also extended their tax filing and payment due dates to July 15. You should confirm the filing deadlines for the states in which you file tax returns.

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