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Coronavirus Aid, Relief, and Economic Security (CARES) Act – Key Provisions

The CARES Act was enacted on March 27, 2020. Here are some key provisions of the CARES Act for individuals and businesses.

CARES Act Provisions for Individuals

Recovery Rebates

The 2020 Recovery Rebates are available as a refundable tax credit of $1,200 for each US resident who is not a dependent, with an additional $500 per dependent. These amounts begin to phase out once adjusted gross income (AGI) exceeds certain amounts: $75,000 (single), $112,500 (head of household), or $150,000 (married filing jointly). AGI is based on the 2019 income tax return, or if not filed yet, the 2018 return. For most taxpayers, no action needs to be taken to receive any amounts; payments will be made either by direct deposit or via a check sent to the address on the most recent income tax return.

Accessing Money in Retirement Accounts

Certain people impacted by the coronavirus can access their retirement accounts (*e.g.*, IRAs & qualified plans) more easily. These people include (i) those who are diagnosed with COVID-19; (ii) those whose spouse or dependent is diagnosed with COVID-19; or (iii) those who experience adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of child care due to COVID-19, closing or reducing hours of a business owned or operated by the individual due to COVID-19, or other factors determined by the Treasury Secretary.

For people under the age of 59 ½, the usual 10% early withdrawal penalty will not apply for withdrawals up to $100,000 for distributions from qualified plans, Individual Retirement Accounts (IRA), and Section 457(b) eligible plans for coronavirus-related purposes on or after January 1, 2020. Such a distribution can be recontributed to an eligible retirement plan within three (3) years of the distribution without regard to that year's contribution limitation. To the extent the distribution is not recontributed, the income attributable to such distribution can be taxed ratably over a three-year period. Distributions are deemed to satisfy the hardship distribution provisions, and they are exempt from tax withholding and the trustee-to-trustee transfer rules.

In addition, the amount of a loan that an employee can take from a qualified employer plan for coronavirus-related purposes is increased to the lesser of (i) $100,000; or (ii) 100% of the present value of the vested account balance of the employee for those plans that already have a loan provision. This is increased from the lesser of (i) $50,000; or (ii) 50% of the vested account balance. The repayment of such loans can be delayed one year from the original due date.

Temporary Waiver of Required Minimum Distributions (RMDs)

Required Minimum Distributions (RMDs) that are required for qualified defined contribution, Section 457(b), Section 403(b) plan participants or their beneficiaries, and Individual Retirement Arrangement (IRA) owners or their beneficiaries, are waived in 2020. This waiver includes both (i) first-year RMDs attributed to 2019 but that can be taken by April 1, 2020; and (ii) all RMDs attributed to 2020. This waiver does not apply to qualified defined benefit plans.

CARES Act Provisions for Businesses

Keeping Employees Paid – Loans and Loan Forgiveness

Under the Paycheck Protection Program, the government will guarantee 100% of loans up to $10 million made by the Small Business Administration under section 7(a) of the Small Business Act. Eligible borrowers include small businesses with 500 or fewer employees, including sole proprietors, independent contractors, and other self-employed individuals; and 501(c)(3) nonprofits. The covered loan period is from February 15, 2020 through June 30, 2020. Borrowed funds can be used to pay (i) employee salaries, paid sick or medical leave, and health insurance premiums; and (ii) mortgage, rent, and utility payments.

The loans made under the Paycheck Protection Program are potentially 100% forgivable – effectively becoming a non-taxable grant to the borrowing employer. The portion of the loan that is forgivable is the amount the employer expends for the 8 weeks (2 months) after taking the loan on payroll costs (including benefits), interest on mortgage, rent, and utilities. The amount of the loan forgiven will be reduced proportionally by any reduction in employees. If there is any loan remaining at end of 1 year, it will be subject to a maximum interest rate of 4% and maximum term of 10 years.

Delay of Payment of Employer Payroll Taxes

The payment of an employer's share of Social Security (FICA) payroll taxes and 50% of self-employment taxes owed with respect to the remainder of the 2020 tax year is deferred over a two-year period. Half of the amount will be due by the end 2021, and the rest by the end of 2022.

Advanced Planning, March 2020