Coronavirus Aid, Relief and Economic Security (CARES) Act
Summary of Individual Tax Provisions

REBATE:

Taxpayers (an individual other than a nonresident alien) with income up to $75,000 ($112,500 for head of household and $150,000 for married filing jointly) will receive, by check or direct deposit, a $1,200 ($2,400 for married filing jointly) rebate. Individuals who have no income, as well as those whose income comes entirely from programs such as SSI benefits, are eligible for the rebate if a tax return has been filed for 2018 or 2019.

There's a 5% reduction in the rebate for taxpayers with income between $75,000 - $99,000 ($112,500-$146,500 for head of household and $150,000-$198,000 for married filing jointly). The income tests will be based off the most recently filed tax return. If a taxpayer did not receive a rebate because the income limit was exceeded in the most recently filed tax return, but was under the income limit in 2020, a refundable tax credit will be available on the 2020 income tax return. If the taxpayer was under the income limit on the most recently filed tax return but over the income limit in 2020, the taxpayer won't have to pay back the excess. A tax return will need to be filed for 2018 or 2019 to receive the stimulus benefit.

An additional $500 will be sent out for each dependent, under the age of 17, on the most recently filed tax return. Taxpayers claimed as a dependent on another return will not be eligible for this rebate. If the dependent status changes on the 2020 tax return, a refundable tax credit will be available, assuming the income limits are not exceeded.

Commentary: If a taxpayer has changed addresses and didn't provide direct deposit information on the most recently filed tax return, a change of address form with the IRS should be filed. Taxpayers that aren't required to file a tax return will want to file a 2019 tax return to receive the rebate or wait and file a 2020 tax return to receive the tax credit.

WAIVING OF 10% PENALTY ON EARLY WITHDRAWAL OF QUALIFIED RETIREMENT PLAN:

This provision waives the 10% early withdrawal penalty for distributions up to $100,000 from qualified retirement accounts during 2020 for a qualified individual.

A qualified individual is an individual

(1) who is diagnosed with the virus SARS-CoV-2 or COVID-19

(2) whose spouse or dependent is diagnosed with such virus or disease, or

(3) who experiences adverse financial consequences as a result of being quarantined, being 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 such virus or disease, closing or reducing hours of a business owned or operated due to such virus or disease, or other factors that will be announced by IRS .

Taxpayers can elect to report any taxable income attributed to these distributions over three years starting with the 2020 tax return instead of reporting it all in 2020. The taxpayer may also recontribute some or all these funds within the three years to avoid taxation.

Commentary: An IRA distribution can be another form of financial relief for those in a financial hardship due to COVID-19. There is no early withdrawal penalty and the law allows taxpayers to spread out reporting the taxable income over three years.

REQUIRED MINIMUM DISTRIBUTIONS WAIVED FOR 2020:

Required minimum distributions for retirement plans and IRAs have been temporarily waived for 2020.

Commentary: This provides financial relief by reducing income taxes and may help some taxpayers stay below certain income limit thresholds like the individual rebate.

ALLOWABLE DEDUCTION FOR CHARITABLE CONTRIBUTIONS:

Taxpayers may deduct, up to $300, of qualified charitable contributions in 2020 even if they do not itemize deductions. For taxpayers who itemize, the 50% adjusted gross income limitation has been suspended for 2020. For example, if a taxpayer had adjusted gross income of $50,000 but had charitable contributions of $30,000, the entire $30,000 would be an allowable itemized deduction in 2020.

Commentary: Rather than a tax provision for tax relief, this provision was added to try to encourage taxpayers to continue contributing to qualified charitable organizations during the COVID-19 pandemic since many charitable organizations are on the front lines helping those in need.

STUDENT LOAN REPAYMENTS BY EMPLOYERS:

Education payments paid by an employer that are excluded from employee's gross income now include student loan repayments, up to $5,250 per employee. This limit also includes tuition, fees, books, etc. paid by the employer. Payments must be made in 2020 and can be paid to the employee or the lender. The loan must have been borrowed for the education of the employee and not for the spouse or the dependent. To avoid a double benefit, any interest expense paid by the employer may not qualify for the student loan interest expense deduction on the employee's tax return.

Commentary: Many employers and employees should take advantage of this before time runs out. Renegotiating salaries or hourly wages to factor in this new repayment can help with a companies' cashflow by saving payroll taxes for the business and will still benefit the employee. This is an employee-by-employee option so if an employer has multiple employees paying student loans, each employee can decide whether they want the employer to help pay their loans.

CHANGE TO NET OPERATING LOSSES (NOLS)

Net operating losses occurring in 2018, 2019, or 2020 can be carried back five years and fully offset taxable income.

Commentary: Part of a recent tax law change was a new restriction which limited NOLs to offset up to 80% of taxable income. This provision essentially suspends those changes until 2021. Amended returns to claim tax refunds may be extremely beneficial in generating additional cashflow. NOLs generated in 2018 will first be carried back to 2013 and then carried forward each year until fully used up. This could potentially increase the value of the losses by carrying back losses to years when tax rates were potentially much higher.

CHANGE TO EXCESS BUSINESS LOSS LIMITATIONS:

The excess business loss limitation has been suspended. Excess business losses arising in 2018, 2019, and 2020 may be used to offset other income like capital gains, without a limitation.

Commentary: Filing amended tax returns for 2018 or 2019 to take advantage of this change could help free up additional cashflow with tax refunds.

FOLLOW UP: TAX RETURN FILING AND PAYMENT DEADLINE

The deadline for filing Federal personal income tax returns has been extended until July 15th, 2020. This extended deadline also applies to the payments that would have otherwise been due on April 15th, 2020. The filing deadline for Federal gift tax returns have also been extended to July 15th, 2020. Federal estimated tax payments for the 2020 tax year that were originally due on April 15, 2020 and June 15, 2020 have also been extended to July 15, 2020 without penalty and interest.

For more information regarding the CARES Act and other COVID-19 resources, please visit our AEM COVID-19 Resource Center.