May 2020

The CARES Act

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, the $2.2 trillion stimulus package, will provide much-needed assistance for individuals and businesses experiencing financial hardship in the wake of the Coronavirus global pandemic. Below we highlight the most relevant provisions impacting our clients' cash flows, retirement accounts, and businesses.

Cash Flow Provisions

<u>Charitable Contributions</u>: A new above-the-line $300 deduction or 100% of adjusted gross income for cash contributions to qualified charities (increased from 60% of AGI) was created for itemizing filers. Adjusted Gross Income (AGI), includes your gross income minus adjustments such as educator expenses, student loan interest, alimony payments, or contributions to a retirement account. With this new provision, individuals can completely offset their taxable income with cash contributions to qualified charities.

<u>Student Loans</u>: Student loan payments were deferred until September 30, 2020, and employers can exclude student loan repayments from compensation.

<u>Unemployment Compensation Benefits</u>: The regular Unemployment Compensation was increased by $600 per week as well as extended by 13 weeks. Also, those applying for unemployment can skip the normal one-week waiting period.

Retirement Account Provisions

<u>Coronavirus-Related Distributions</u>: Individuals impacted by the Coronavirus are eligible to take distributions from retirement accounts (IRAs and or employer-sponsored plans) of up to $100,000 in 2020. These distributions benefit from the following items:

- Exempt from the 10% early withdrawal penalty for those under the age of 59 ½
- Not subject to mandatory 20% federal withholding requirements
- Withdrawals are still subject to income tax, but the taxes on the distribution may be spread over a three-year period beginning with year 2020
- If some or all the distribution isn't needed, individuals can redeposit distributions back into their retirement account within three years of receipt without penalty

<u>Retirement Plan Loans</u>: The maximum loan amount from Employer-Sponsored plans was increased from $50,000 to $100,000 or 100% of vested balances with 2020 payments delayed for up to one year.

<u>Required Minimum Distributions (RMDs)</u>: 2020 RMDs have been waived. This provision also eliminates RMDs for individuals who turned 70 ½ in 2019 but chose to postpone their RMD to April 1, 2020. If you have taken an

RMD in 2020 and would like to return all or a portion of the distribution, you may be able to do so if you meet either of the following two conditions:

1. If you took your RMD within the last 60 days, you can deposit the funds back in your account under the 60-day rollover window (IRS Notice 2020-2023: the IRS extended the 60-day rollover period stating that any distribution taken between Feb. 1, 2020, and May 15, 2020, can still be rolled over if done by July 15, 2020), OR
2. If you took your RMD more than 60 days ago, you can deposit your funds back into your account IF the distribution(s) qualify under the Coronavirus-Related Distribution rules. You have the option of depositing the funds back into the account anytime within a three-year period.

Valid COVID-19 related distributions include:

- Being diagnosed with COVID-19 by a test approved by the Centers for Disease Control & Prevention;
- Having a spouse or dependent diagnosed with COVID-19 by a test approved by the Centers for Disease Control & Prevention;
- Experiencing adverse financial consequences as a result of being quarantined, laid off, furloughed, unable to work due to lack of childcare, or reducing hours of a business that you own or operate due to COVID-19.

**These rules do not apply for non-spousal beneficiaries of inherited IRAs*

Small Business Provisions

Small Business Loans: The Paycheck Protection Program was meant to help small businesses keep employees on payroll during the pandemic. Initially, Congress approved $350 billion in funding under the $2.2 trillion economic rescue package. The program burned through the first round of funding in a matter of days; however, Congress approved an additional $310 billion in funding and the SBA is still accepting applications to finance eight weeks of payroll and other overhead. So far in the second round of funding, the SBA has distributed $175 billion in loans leaving some $135 billion more to distribute.

Tax Credit: A payroll tax credit is available for qualifying businesses not receiving a Paycheck Protection Program loan.

Tax Deferment: Employers are eligible to defer payroll taxes from the date of enactment, through the end of the year, until the end of 2021 (50%) and 2022 (remaining 50%).

Planning Strategy Highlight: Roth Conversion

The combination of the current market environment, CARES Act, and prior changes from the SECURE Act present a rare opportunity for a Roth Conversion.

What is a Roth Conversion? A transfer of securities or cash from a Traditional IRA (pre-tax dollars) into a Roth IRA (after-tax dollars). Traditional IRAs are subject to Required Minimum Distributions (RMDs) which are taxed as ordinary income, while distributions from Roth IRAs are tax-free and are not subject to RMDs. Increasing this tax-advantaged investment bucket provides individuals with a tax diversification tool – spreading your retirement dollars among various account types to provide greater control over taxes paid in retirement.

New Distribution Rules

1. Required Minimum Distributions - The CARES Act temporarily waived RMDs from qualified retirement plans and IRAs in 2020. Since the starting age for Required Minimum Distributions was changed from 70.5 years of age to 72 (SECURE Act), anyone who had not reached 70.5 by December 31, 2019, your RMD was already delayed to age 72. This allows additional time for individuals to take advantage of Roth conversions.
2. Non-Spousal Beneficiaries – The SECURE Act eliminated the traditional “stretch IRA,” which allowed younger non-spousal beneficiaries to take RMDs from inherited IRAs over their longer life expectancy. Now beneficiaries must liquidate these inherited retirement accounts within 10 years of receipt, which could create less after-tax value for beneficiaries. Inherited Roth IRA distributions would not be taxed and can create a tax-efficient transfer of wealth.

Why convert now? When stock valuations decline, you can potentially move more shares from pre-tax dollars held in a traditional IRA to a tax-free pool in a Roth IRA. In addition to converting shares at a lower value and lower tax-cost, those eligible for a Coronavirus-Related Distribution from their retirement plan could potentially spread the tax cost to convert over a 3-year period.

> *Example: If you were to convert 100 shares of AAPL from your IRA to Roth December 31st of last year at $293.65 per share, you would pay taxes on $29,365. If you were to convert 100 shares of AAPL from your IRA to Roth on March 31, 2020, at $241.41 per share, you would pay taxes on $24,141.*

We encourage you to consult both your advisor and tax advisor regarding any of the CARES Act provisions applicable to your financial situation. We are here to guide you through difficult times and find some benefit in the complexity of the situation.