CARES Act: Historic Senate Legislation to Provide Individuals with Personal Tax Rebates Among Other Tax Advantages (Updated March 27, 2020)

Article
March 26, 2020

On Friday, March 27th, the House of Representative approved the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The Act, which is designed to provide economic relief as the United States adapts to the outbreak of COVID-19, had previously been approved by the Senate in the late hours of March 25th, by a rare bipartisan vote of 96-0. With President Trump's signature a foregone conclusion, the country can begin assessing the far reaching impact of the Act.

Among the provisions designed to provide support families through the pandemic are the following:

- **Recovery Rebates to Qualifying Individuals.**
  - The Act provides eligible individuals with a payment in an amount up to $1,200 (or $2,400 for married individuals filing joint income tax returns), plus $500 for each qualifying dependent child (generally under age 17). This provision is modified from earlier versions of the Act which would have limited payments to the lesser of $1200 or the person's net income tax liability for 2020 (but not less than $600).
  - However, these payments are phased out for taxpayers with adjusted gross income above $150,000 for joint filers, $112,500 for heads of household and $75,000 for other individuals. Specifically, the amount of the payment will be reduced by 5% of the adjusted gross income over those stated thresholds. For example, in the case of taxpayers with no qualifying dependent children, the payment amount is completely phased out at $198,000 for joint filers, $136,500 for heads of household, and $99, 000 for other individuals.
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    - Income reported on 2019 tax returns will be used if the taxpayer has already filed his or her return. If no return has been filed for 2019, 2018 data will determine eligibility. A provision of the Act permits payments to be issued to taxpayers by direct deposit to the accounts listed for receipt of tax refunds on their most recently filed income tax returns, if applicable, or by check.
    - Eligible individuals exclude non-resident aliens, persons who are claimed as dependents of another person, and persons who cannot provide a personal identification number such as a Social Security Number.

- **Waiver of Penalty on Early Retirement Plan Distributions and Enhanced Loan Provisions.**
    - The Act waives the usual 10% penalty on early qualifying distributions from retirement plans applicable to persons younger than age 59 ½ under certain circumstances.
    - Qualifying distributions include those made to an individual (a) who is diagnosed with COVID-19; (b) whose spouse or dependent is diagnosed with COVID-19; or (c) who experiences 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.
    - Income tax attributable to the early qualifying distribution under the circumstances described above would be recognized over a three-year period in lieu of solely in the year of distribution.
    - However, persons obtaining qualifying distributions from plans under the COVID-19 hardship provisions, would be permitted to repay the amounts to their retirement plans for a period of three years but would not be required to do so. If repaid, the withdrawal will be treated as a roll-over and not subject to *income* tax.
    - In addition to permitted hardship withdrawals, the Act would increase the amount that could be borrowed from a retirement plan account by any individual from $50,000 to $100,000.

- **Expanded Availability of Charitable Deductions.**
    - The Act makes a permanent change to the tax code as it relates to the deductibility of charitable contributions.
    - Prior to the act only those persons itemizing deductions could deduct charitable contributions. The Act permits deduction of up to $300 for charitable contributions made by those not otherwise itemizing deductions.
    - In order to qualify for the new above the line charitable deduction, contributions (a) must be made in cash and (b) cannot be made to donor advised funds or supporting organizations such as “friends’ groups”, it

being the intent that contributions be used for immediate support of charitable organizations.

- **Modification of Limitation on Charitable Contributions During 2020.**
  - The Act also modifies the adjusted gross income limitations for 2020 to 100% of adjusted gross income for individuals and 25% of taxable income for corporations. This means that, for 2020 only, taxpayers may completely shelter their taxable income by the making of charitable contributions.
- **Exclusion of Employer Paid Student Loan Payments from Taxable Income.**
  - The Act eliminates from taxable income, student loan payments made by employers on behalf of their employees during the year 2021.