

CARES Act Provides Relief to Individuals and Businesses



On Friday, March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. This \$2 trillion emergency relief package is intended to assist individuals and businesses during the ongoing Coronavirus pandemic and accompanying economic crisis.

MAJOR RELIEF PROVISIONS ARE SUMMARIZED HERE.

UNEMPLOYMENT PROVISIONS

The legislation provides for:

- An additional \$600 weekly benefit to those collecting unemployment benefits, through July 31, 2020
- An additional 13 weeks of federally funded unemployment benefits, through the end of 2020, for individuals who exhaust their state unemployment benefits
- Targeted federal reimbursement of state unemployment compensation designed to eliminate state one-week delays in providing benefits
- Unemployment benefits through 2020 for many who would not otherwise qualify, including independent contractors and part-time workers

RECOVERY REBATES

Most individuals will receive a direct payment from the federal government. Technically a 2020 refundable income tax credit, the rebate amount will be calculated based on 2019 tax returns filed (2018 returns in cases where a 2019 return hasn't been filed) and sent automatically via check or direct deposit to qualifying individuals. To qualify for a payment, individuals generally must have a Social Security number and must not qualify as the dependent of another individual.

The amount of the recovery rebate is \$1,200 (\$2,400 if married filing a joint return) plus \$500 for each qualifying child under age 17. Recovery rebates are phased out for those with adjusted gross income (AGI) exceeding \$75,000 (\$150,000 if married filing a joint return, \$112,500 for those filing as head of household). For those with AGI exceeding the threshold amount, the allowable rebate is reduced by \$5 for every \$100 in income over the threshold.

Rebate Amounts and Phaseout Ranges

While details are still being worked out, the IRS will be coordinating with other federal agencies to facilitate payment determination and distribution. For example, eligible individuals collecting Social Security benefits may not need to file a tax return in order to receive a payment.

RETIREMENT PLAN PROVISIONS

- Required minimum distributions (RMDs) from employer-sponsored retirement plans and IRAs will not apply for the 2020 calendar year; this includes any 2019 RMDs that would otherwise have to be taken in 2020
- Qualified retirement plan loan provisions are broadened to allow loans up to \$100,000 or 100% of the participant's vested account balance, whichever is less. This applies to loans made within 180 days of enactment. Loan payments due from the date of enactment of the CARES Act until 12/31/20 may be delayed.
- Distributions taken from qualified retirement plans received during 2020 of up to \$100,000 for COVID-19 related purposes are allowed without a 10% penalty, taxable evenly over 3 years beginning with year of distribution, and may be recontributed within 3 years. Related purposes include a COVID-19 diagnosis for you, your spouse or dependent, and financial hardship as a result of business closures, reduced work hours, lay off, furlough, lack of child care or other factors as determined by the Treasury Secretary.

STUDENT LOANS

- The legislation provides a six-month automatic payment suspension for any student loan held by the federal government; this six-month period ends on September 30, 2020
- Under already existing rules, up to \$5,250 in payments made by an employer under an education assistance program could be excluded from an employee's taxable income; this exclusion is expanded to include eligible student loan repayments an employer makes on an employee's behalf before January 1, 2021



BUSINESS RELIEF

- An employee retention tax credit is now available to employers significantly impacted by the crisis and is applied to offset Social Security payroll taxes; the credit is equal to 50% of qualified wages up to a certain maximum
- Employers may defer paying the employer portion of Social Security payroll taxes through the end of 2020 and may pay the deferred taxes over a two-year period of time; self-employed individuals are able to do the same
- Net operating loss rules expanded
- Deductibility of business interest expanded
- Provisions relating to specified Small Business Administration (SBA) loans increase the federal government guarantee to 100% and allow small businesses to borrow up to \$10 million and defer payments for six months to one year; self-employed individuals, independent contractors, and sole proprietors may qualify for loans

Charitable Contributions

A charitable deduction of up to \$300 is allowed for those who do not itemized their deductions. The adjusted gross income limitation is waived allowing you to offset more of your taxable income.

These two items apply only to cash contributions and are not available for contributions to donor advised funds or other supporting organizations.

PRIOR LEGISLATIVE RELIEF PROVISIONS

Signed into law roughly two weeks prior to the CARES Act, the Families First Coronavirus Response Act (FFCRA) also included relief provisions worth noting:

- Requirement that health plans cover COVID-19 testing at no cost to the patient
- Requirement that employers with fewer than 500 employees generally must provide paid sick leave to employees affected by COVID-19 who meet certain criteria, and paid emergency family and medical leave in other circumstances
- Payroll tax credits allowed for required sick leave as well as family and medical leave paid

Many of these provisions contain limitations and other time sensitive or technical requirements that must be considered in order to fully take advantage of them. The next step is to connect with your advisors. Your tax advisor can help you understand how this legislation will impact your federal and state tax situation. Your state may not follow these federal laws or may put forth its own legislation. Your financial advisor can assess your overall financial picture and coordinate your cash flow needs.

Your plan administrator can discuss the changes to your retirement plan. Your local unemployment office is another resource to help you navigate additional loss-of-pay provisions designed for those who have been unable to work.

Clear Perspective Advisors is not a tax or legal advisor. While this information is not intended to replace your discussions with your tax advisor, it may help you to comprehend the tax implications of your investments and plan efficiently going forward.

Source: CARES Act <https://www.congress.gov/116/bills/hr748/BILLS-116hr748enr.pdf>

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