SAX Accounting Tax | Advisory

#togetherwestand

COVID-19 Resource Center

Stay up-to-date with meaningful information relevant to your state and business.

CARES ACT
RELIEF FOR INDIVIDUALS

On March 27, 2020, President Trump signed the “Coronavirus Aid Relief, and Economic Security Act” (CARES Act), allocating $2.2 trillion in spending and tax breaks to increase liquidity in the economy, provide relief for individuals and businesses, as well as specific industries most seriously harmed by this pandemic.

Important tax provisions for individuals include recovery rebates, relief for distributions from retirement accounts, changes to charitable contributions and suspension of excess business loss.

Here are the **key individual tax provisions** in the CARES Act:

RECOVERY REBATES

The new law provides for individual taxpayers to receive a rebate check from the IRS in the amount of $1,200 ($2,400 in the case of joint filers). The rebate is increased by $500 for each qualifying child. However, the rebate amount starts phasing out in 5% increments at $75,000 ($150,000 for joint filers) and is capped at $99,000 for an individual ($198,000 for joint filers).

For purposes of the credit, an "eligible individual" is any individual other than a nonresident alien, a dependent, or estates and trusts. If an individual hasn't yet filed a 2019 income tax return, the IRS will determine the amount of the rebate using information from the taxpayer's 2018 return. If no 2018 return was filed, the IRS will use information from the individual's 2019 Social Security Benefit Statement. The IRS may deposit the rebate electronically based upon the bank information provided on the taxpayer’s return or mail a check. Within 15 days of

making the distribution, the IRS will mail a notice to the taxpayer's last known address indicating how the payment was made, the amount of the payment, and a phone number for reporting any failure to receive the payment.

The provision will require that all taxpayers and dependents must disclose a valid social security or taxpayer identification number.

PREMATURE DISTRIBUTION PENALTY RELIEF

The new law waives the 10% penalty on early withdrawals up to $100,000 for coronavirus related distributions from qualified retirement accounts, qualified plans (e.g. a 401(k) plan), and 403(b) plans.

A coronavirus-related distribution is any distribution made on or after 1/1/2020, and before 12/31/2020, from an eligible retirement plan made to a qualified individual.

A qualified individual is an individual (1) who is diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention (CDC), (2) whose spouse or dependent is diagnosed with such virus or disease by such a test, or (3) who experiences adverse financial consequences as a result of being quarantined, being furloughed, 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 by the individual due to such virus or disease, or other factors as determined by the Secretary of the Treasury.

The administrator of an eligible retirement plan may rely on an employee's certification that the employee satisfies any of the three conditions above in determining whether any distribution is a coronavirus-related distribution.

REPAYMENT OF DISTRIBUTIONS

Taxpayers that receive a coronavirus-related distribution have 3 years (instead of the normal 60 days) to repay the distribution to an IRA or other eligible retirement plan. If the taxpayer chooses not to repay it, an election can be made to treat it as income ratably over the next 3 years beginning the year of distribution.

RETIREMENT PLANS

Normally an employee cannot borrow more than the lesser of 50% of their vested account balance or $50,000 from their employer sponsored retirement plan. The new law opens a 180-day window from date of enactment, that raises the dollar limit to $100,000 and eliminates the 50% of the account balance limit.

CHARITABLE CONTRIBUTIONS

A modification to charitable deductions, will allow for up to a $300 “above-the-line” deduction for non-itemizing individuals. In addition, for itemizing individuals, the adjusted gross income limitation has been removed for “qualifying charitable contributions”(QCC) made in 2020. QCC are contributions made in the form of cash and not made to donor advisor funds or non-operating private foundations.

EXCESS BUSINESS LOSS LIMITATION

The limitation on the deduction for noncorporate taxpayers in claiming losses in excess of $250,000 for single/$500,000 for joint filers is suspended for years 2018, 2019 and 2020.

OTHER ITEMS INCLUDED:

- Waiver for required minimum distribution for 2020 from defined contribution plans and IRAs.
- Exclusion of up to $5,250 of certain employer payments of employee education loans for payments made from 3/27/2020 before 1/1/2021.

Sax will keep you informed as important updates emerge. Reach out to your Sax advisor with questions or visit Sax’s COVID-19 Resource Center for more information.