CARES Act for Individual Taxpayers

In the past week, there have been a multitude of headlines and articles discussing the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). It was signed into law on March 27, and the bill contains broad changes that impact both individual taxpayers and business owners. As a result, your ARGI team has put together a task force to digest all of the changes contained in the CARES Act and help summarize those related to specific topics. The summary below contains the main changes for individual taxpayers.

Recovery Rebates

Perhaps the most widely publicized aspect of the CARES Act, the recovery rebates, or stimulus checks as referred to by many, allow individual taxpayers to receive an advance on a newly created 2020 refundable tax credit. While the credit is for the 2020 tax year, the potential to receive a recovery rebate is actually based on your 2018 or 2019 adjusted-gross-income ("AGI"). The IRS will use the most recent tax return filed. If your AGI is under certain thresholds for 2018 or 2019, you may receive up to $1,200 for an individual, $2,400 for a married couple filing jointly, and up to $500 per child under age seventeen. The AGI thresholds are $75,000 for an individual, $112,500 for a head of household, and $150,000 for married filing jointly. If your AGI exceeds those levels on your most recent return, the recovery rebate is phased out $5 for every $100 of income over each threshold. The recovery rebate is entirely phased out at an AGI of $99,000 for individuals, $146,500 for heads of households with one child, and $198,000 for married couples filing jointly with no children.

Many are wondering what happens to their recovery rebate if their most recent AGI exceeds the thresholds, but their 2020 AGI will be substantially lower as a result of unemployment, reduced hours or salary, or being furloughed for reasons related to COVID-19. The good news is that you can still receive the benefit of the credit when you file your 2020 tax return. If your AGI exceeds the threshold levels in 2018 or 2019, as well as 2020, you may receive a reduced or no benefit from the credit, depending on your AGI. Additionally, if you receive a recovery rebate based on your most recent AGI, but your 2020 AGI ends up far exceeding the thresholds, the CARES Act does not have a clawback provision that would require the recovery rebate to be repaid to the IRS. This is a major potential windfall for taxpayers.

Retirement Plans

The CARES Act also contains a number of changes to individuals who participate in employer-sponsored retirement plans or have IRAs or Roth IRAs. Generally, these changes provide participants the opportunity to access retirement account funds early without imposing the typical penalties.

First, the CARES Act allows for participants to withdraw up to $100,000 from a retirement plan without paying the 10% early withdrawal penalty. Eligibility for this exception requires the participant or spouse to have been diagnosed with COVID-19 or experience a financial hardship due to COVID-19. There is also the ability for the Secretary of the Treasury to include additional allowable circumstances. Distributions taken by participants may either be repaid over a three-year period or included in the participant's gross income over a three-year period, allowing the participant flexibility to spread out the repayment or income recognition.

Another change to retirement plans is the increase in the maximum loan amount for participants from $50,000 to $100,000 or 100% of the vested balance if lower. Loans taken out, or outstanding loans in good standing, are also potentially eligible for a deferral of payments for twelve months.

Lastly, the CARES Act waived the requirement to take required minimum distributions ("RMDs") from retirement plans for 2020. Notably, this waiver includes RMDs that were required to be taken by April 1, 2020 for individuals who reached RMD age in 2019 but had not taken their 2019 RMD, as well as the 2020 calendar year RMD. The waiver also applies to individuals with inherited IRAs.

Charitable Contributions

After the Tax Cuts and Jobs Act ("TCJA") was signed into law, many taxpayers utilized the standard deduction rather than itemize their deductions. This was due to the various limitations imposed by the TCJA, as well as the increase in the standard deduction. However, the CARES Act has added a new $300 above-the-line deduction for taxpayers who do not itemize.

For taxpayers who do itemize their deductions, the AGI limitation for cash donations is removed entirely. The prior limit on a deduction was 60% of the taxpayer's AGI in a given year. Effectively, the charitable deduction limit for cash donations is 100% of AGI.

There is a catch to both the new above-the-line deduction, as well as the increased AGI limit for cash donations for those who itemize. The donations must be "*qualified charitable contributions*" as defined by the CARES Act. This definition is narrower than the typical "charitable contribution" definition most are familiar with. A qualified charitable contribution requires the donation to be made in cash and directly to a 501(c)(3) organization. The donation cannot be made to establish or to an existing donor-advised-fund or a "supporting organization" as defined by Section 509(a)(3) of the Internal Revenue Code. If you have questions about which organizations may or may not qualify, our Tax Team can help answer those questions.

While there are many changes in the CARES Act, those discussed above are the ones we believe will have the most widespread impact. As always; however, in these times of uncertainty, please reach out to the ARGI team if you have any questions about the CARES Act, COVID-19 or your personal financial situation.