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Individual Tax Benefits in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

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On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act (the "Act"), the third stimulus package, that provides nearly $2 trillion of support to families and businesses during the COVID-19 pandemic. While the Act includes tax relief for both individuals and businesses, this *Legal Update* focuses on the relief provided to individual taxpayers. von Briesen also released a detailed discussion of the Act's tax benefits to businesses, which can be found here.

Individual Taxpayer Provisions

Recovery Rebates for Individuals

Qualified individuals will receive an automatic tax rebate of up to $1,200 ($2,400 for joint filers), plus $500 for each child (who has not attained age 17). The rebate will begin to phase out at a rate of $5 per every $100 of income in excess of $150,000 for joint filers, $112,500 for head of household, and $75,000 for all other taxpayers. Any individual except nonresident aliens and dependents of other taxpayers are qualified to receive the rebate. However, an individual who first becomes eligible in 2020 can claim the rebate when filing their 2020 income tax return. Trusts and estates do not qualify for the rebate.

For taxpayers who have yet to file their 2019 income tax returns, their 2018 returns will be used to determined their eligibility for the rebate. If no 2018 return has been filed, eligibility may be determined based upon their 2019 Social Security Benefit Statement or Social Security Equivalent Benefit Statement. The rebate is completely phased out when adjusted gross income exceeds $198,000 for joint filers with no children, $146,500 for head of household filers with one child and $99,000 for single filers with no children. The rebate payments will be made to qualified individuals by direct deposit or check.

Suspension of Retirement Account Early Withdrawal Penalties

The 10% penalty for early withdrawals from retirement accounts is removed for coronavirus-related distributions, which are defined to include distributions made on or after January 1, 2020 and before December 31, 2020 to: (1) an individual diagnosed with COVID-19 or whose spouse or dependent is diagnosed with COVID-19; or (2) to an individual who experienced adverse financial consequences as a result of quarantine, lay-off, reduced hours, inability to work due to child care due to COVID-19, closing or reducing hours of a business owned or operated by the individual due to COVID-19, or other factors as determined by the Secretary of Treasury.

The eligible distributions are limited to $100,000 for any taxable year. Any distribution received shall be included as income, ratably over a 3-year taxable period, unless the taxpayer elects to include all of it as income in the year of distribution. Individuals who receive a distribution may make one or more contributions up to the amount of the distribution to any eligible retirement account during the 3-year period beginning on the date of distribution.

Increased Flexibility for Employer Plan Loans
The Act increases the maximum amount that a qualified participant can borrow from his or her retirement plans from $50,000 to $100,000; the maximum amount of such loan, moreover, is not limited to 50% of the present value of a participant's vested benefit. In addition, if a qualified participant has plan loans that are outstanding on or after the enactment of the Act, any payments that are due during the period beginning on the enactment of the Act and ending on December 31, 2020 shall be delayed by 1 year.

Participants who are qualified to take loans up to $100,000 and who may delay payments on outstanding loans by 1 year include those who: (1) are diagnosed with COVID-19 or whose spouse or dependent is diagnosed with COVID-19; or (2) experienced adverse financial consequences as a result of quarantine, lay-off, reduced hours, inability to work due to child care due to COVID-19, closing or reducing hours of a business owned or operated by the individual due to COVID-19, or other factors as determined by the Secretary of Treasury.

Suspension of Minimum Distribution Rules
Normally, certain qualified retirement plans and individual retirement accounts are subject to annual required minimum distributions once the account holder reaches age 72. The Act suspends this requirement for 2020 for qualified retirement plans, 403(b) plans, government-sponsored 457(b) plans, and certain individual retirement plans.

Exclusion for Certain Employer Payments of Student Loans
The Act provides that up to $5,250 in employer student loan payments made on behalf of an employee before January 1, 2021 will be excluded from the employee's gross-income. To prevent a double benefit, individuals cannot also deduct student loan interest that might otherwise be available under Internal Revenue Code Section 221. These provisions will apply to payments made after the effective date of the Act.

Changes to Charitable Contributions
Above-the-line deduction. Charitable contribution deductions are ordinarily claimed on a Schedule A attached to a Form 1040 income tax return. This limits the tax benefit to only those taxpayer's who have itemized deductions in excess of the standard deduction. The Act allows a non-itemizing taxpayer to claim up to a $300 "above-the-line" charitable contribution deduction against their income without the need to itemize deductions for tax years beginning in 2020.

Change in cash contribution limits. Before the Act was signed into law, an itemizing taxpayer could only deduct cash donations to charitable organizations for an amount up to 60% of their adjusted gross income. The Act modifies this rule for cash contributions made in the 2020 calendar year and allows a taxpayer to deduct cash contributions up to 100% of a his or her adjusted gross income. Any excess can be carried forward. If the cash contributions are made by a partnership or S corporation, each partner or shareholder must elect to have the provision apply to obtain the deduction.

The Act also increases the allowable deduction on the donation of food inventory from 15% to 25% of taxable income.

Additional Guidance Will Be Forthcoming
Additional legislation, regulation and guidance is expected to come from both the federal and state governments. For individuals, this includes information on the payment and timing of the individual tax rebates.

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