

CARES Act Series: Tax and Retirement Planning Relief

- **On March 27, 2020, the government passed the largest stimulus bill in our country's history.**
- **Passed with bi-partisan support, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), will provide \$2 trillion of relief to individuals and businesses impacted by the COVID-19 pandemic.**
- **In addition to the CARES Act, other actions taken by the government related to tax filing deadlines hope to provide relief to those impacted by this economic shock.**
- **The broad elements of the CARES Act and other government actions as they pertain to tax and retirement planning relief are highlighted below.**

Extended Illinois and Federal tax filing ^{1,2}

The due date to file 2019 tax returns for individuals and families (as well as most other taxpayers) has been extended to July 15, 2020.

- This extended due date also applies for federal payments for 2019 federal income tax and self-employment tax and for first quarter 2020 estimated tax payments originally due by April 15th. Please keep in mind that while first quarter 2020 federal estimated tax payments can be delayed until July 15th; for now, second quarter estimated tax payments are still due on June 15th.
- These changes also impact the deadline to make year 2019 IRA, Roth IRA and HSA contributions. These contributions are now due by July 15th.
- Additionally, taxpayers can still file an extension to delay their returns to October 15, 2020.

There is no action necessary to take advantage – these are automatically granted.

Other states have also provided similar accommodations for state income tax returns and payments. For example, Illinois extended its due date for 2019 payments or filing of returns to align with the federal deadline of July 15th, and other states, including New York, California and Arizona, have also made similar announcements. Illinois has not extended the due date for 2020 estimated tax payments.

Keep in mind that taxpayers expecting a refund should file their returns as soon as possible, and refunds are currently being processed by the IRS and state tax agencies as they are received.

Access to retirement savings – penalty free withdrawals and enhanced loan programs ^{3,4}

The CARES Act allows individuals to access funds in their qualified accounts (such as an IRA and/or employer-sponsored 401(k) retirement plan), if needed. Funds can be withdrawn from these accounts by requesting a Coronavirus Related Distribution (CRD).

Up to \$100,000 can be withdrawn during 2020 from qualified accounts as a CRD for those affected by COVID-19 (which includes individuals diagnosed with COVID-19, their spouse or dependents diagnosed with COVID-19, and those suffering adverse financial consequences due to COVID-19). The account owner self-certifies their eligibility for a CRD.

CRDs are not subject to the typical IRS 10% early withdrawal penalty for taxpayers age 59½ or younger or the typical 20% mandatory withholding rate for federal taxes. Additionally, ordinary income taxes due on the CRD can be paid equally over 3 years or the funds can be recontributed to the retirement account anytime within the 3-year period. Recontributions are treated as a rollover contribution and are not subject to the regular annual limits. Note that employers must amend their 401(k) retirement plan programs to allow for CRDs from their plans.

Alternatively, some employees may be able to take advantage of enhanced loan programs from their employer-sponsored 401(k) retirement accounts. The CARES Act allows employers to amend their loan programs to allow individuals to borrow funds from their retirement accounts and repay themselves with interest. These programs can now allow the following terms:

- Loans can be for as much as \$100,000 (increased from \$50,000)
- Loans can be equal to as much as 100% of the vested account balance (increased from 50%)
- All loan payments due between March 27th and December 31, 2020 (for new and existing loans) can be deferred for up to one year.

Waived required minimum distributions (RMDs) ⁵

Typically, account holders age 70½ (for those born before July 1, 1949) or age 72 (for those born after Jun 30, 1949) or older must take an annual taxable Required Minimum Distribution (RMD) withdrawal from their qualified retirement accounts, including their IRA and/or a previous employer's 401(k) or profit sharing plan account.

As these RMDs are calculated using the account's previous year-end value, withdrawals made after a significant market decline may result in a larger than intended distribution when measured as a percentage of the account. Additionally, this may require the sale of securities at distressed prices to provide for these amounts.

For 2020, this requirement has been waived for all qualified accounts subject to RMDs. This includes:

- Year 2020 RMDs
- Year 2019 RMDs for taxpayers attaining age 70½ in 2019 and who delayed their payment until April 1, 2020
- RMDs from Inherited IRAs

Note that the current legislation as written does not address individuals who have already taken their 2020 RMDs. As such, the current remedy for those wishing to avoid the distribution for 2020 is to take advantage of the normal 60-day rollover rule, which allows an individual to return distributed funds (including any tax withholding) to their IRA account within 60 days of the distribution. This rule only applies to indirect rollovers (when the taxpayer has the potential use of the funds) and can only be used once during a 12-month period.

Enhanced tax benefits for 2020 charitable contributions

Under prior guidelines, it was necessary for taxpayers to itemize their deductions to receive the maximum tax benefit for their charitable contributions. The CARES Act allows non-itemized filers to deduct up to \$300 from their taxable income for cash contributions made for 2020.

Additionally, deduction limits for itemized filers have been relaxed for 2020. Under previous rules, these deductions were capped at 60% of the taxpayer's adjusted gross income. The CARES Act essentially removes this cap for 2020.

Both rules only apply to cash contributions to eligible public charities. Donations of appreciated securities or real estate, or donations made to private foundations or Donor Advised Funds, do not receive the enhanced tax treatment.

Resources for further information

The CARES Act is a historic piece of legislation, as it aims to reduce the economic impacts that will likely result from this pandemic. There are many facets to the Act and more guidance is expected in the coming days and weeks. Until then, we recommend consulting with your accountant and Mesirow Wealth Advisor to see how any of this legislation may impact you. For additional resources, we recommend the following sites:

- <https://www.sba.gov/page/disaster-loan-applications>
- <https://www.sba.gov/funding-programs/loans/paycheck-protection-program>

¹ BREAKING NEWS: U.S. TREASURY SECRETARY NOW SAYS TAX FILING DEADLINE IS MOVED TO JULY 15

(<https://www.orba.com/news/breaking-u-s-treasury-secretary-now-says-tax-filing-deadline-is-moved-to-july-15/>)

² BREAKING NEWS: ILLINOIS INCOME TAX FILING AND PAYMENT EXTENSION NOT PERFECT (<https://www.orba.com/news/illinois-income-tax-filing-and-payment-extension-not-perfect/>)

³ Employee Benefit Provisions in the CARES Act Provide Employer and Participant Relief (<https://www.idsupra.com/legalnews/employee-benefit-provisions-in-the-38028/>)

⁴ Analyzing The CARES Act: From Rebate Checks To Small Business Relief For The Coronavirus

Pandemic (<https://www.kitces.com/blog/analyzing-the-cares-act-from-rebate-checks-to-small-business-relief-for-the-coronavirus-pandemic/>)

⁵ CARES Act Waives Required Minimum Distributions From Retirement Accounts for 2020 (<https://www.aarp.org/money/investing/info-2020/cares-act-retiree-tax-benefit.html>)

CARES Act Series Sources:

Rollovers of Retirement Plan and IRA Distributions (<https://www.irs.gov/retirement-plans/plan-participant-employee/rollovers-of-retirement-plan-and-ira-distributions>)

COVID-19 Update – How the CARES Act Effects Tax Benefits Related to Charitable Giving (<https://www.bclplaw.com/en-US/thought-leadership/covid-19-update-how-the-cares-act-effects-tax-benefits-related-to-charitable-giving.html>)

CARES Act Expands SBA Loan Programs to Offer Relief for Small Businesses During the COVID-19 Pandemic

(<http://www.gouldratner.com/publication/CARES-Act-Expands-SBA-Loan-Programs-To-Offer-Relief-for-Small-Businesses-During-COVID-19-Pandemic>)

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(<http://www.gouldratner.com/publication/CARES-Act-Expands-SBA-Loan-Programs-To-Offer-Relief-for-Small-Businesses-During-COVID-19-Pandemic>)

CARES Act – Summary of Tax Provision (<https://www.foley.com/en/insights/publications/2020/03/cares-act-summary-of-tax-provision>)

CARES Act – Summary of Tax Provision (<https://www.foley.com/en/insights/publications/2020/03/cares-act-summary-of-tax-provision>)

PRESIDENT TRUMP SIGNS INTO LAW CARES ACT (<https://www.bdo.com/insights/tax/federal-tax/president-trump-signs-into-law-cares-act>)

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) Is Enacted Into Law

(<https://www.foley.com/en/insights/publications/2020/03/coronavirus-cares-act-enacted-into-law>)

What’s Inside The Senate’s \$2 Trillion Coronavirus Aid Package (<https://www.npr.org/2020/03/26/821457551/whats-inside-the-senate-s-2-trillion-coronavirus-aid-package>)

CARES Act Offers Relief, Support for US Healthcare Sector During COVID-19 Response (<https://www.natlawreview.com/article/cares-act-offers-relief-support-us-healthcare-sector-during-covid-19-response>)

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