How the CARES Act affects individuals and families

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The recent government stimulus CARES Act contained a lot of legislation targeted to help businesses survive an economy rocked by the COVID-19 pandemic. But what about help for individuals and families?

The Coronavirus Aid, Relief, and Economic Security (CARES) Act did include items designed to help people out, including:

- Individual recovery rebate/economic impact payments
- Accessing funds through your retirement accounts
- Required minimum distributions (RMDs) from retirement accounts
- Changes to charitable giving
- Relief regarding higher education costs
- Additional support for COVID-19 healthcare

Our team of industry professionals at Wipfli and affiliate Wipfli Financial Advisors takes a deeper look into the opportunities for individuals and explains how you can access the benefits.

Individual recovery rebate/economic impact payments

As many households are struggling with layoffs and changed circumstances, the individual recovery rebate is a payment being issued to provide immediate financial relief to Americans.

As long as you're not a dependent on another person's tax return and not a non-resident alien, you are eligible to receive an individual recovery rebate. Every adult who is eligible for a rebate is allowed up to $1,200 for themselves and $500 for every qualifying child under the age of 17 in their household. For a typical family with two parents and two minor children, that would result in a maximum payment of $3,400.

However, there are limits to how much you can make and still qualify for a rebate. The payments are phased out for individuals whose adjusted gross income (AGI) exceeds the following thresholds for each filing status:

- Single/married filing separately: $75,000
- Head of household: $112,500
- Married filing joint: $150,000

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Rebates are reduced by $5 for every $100 that your AGI exceeds the stated threshold for your filing status.

For example, a hypothetical family of four is eligible for up to $3,400 but if their jointly filed return reports an AGI of $175,000, their income exceeds the threshold for married filing joint by $25,000, so their rebate is reduced by $1,250 and their final rebate amount is $2,150.

The IRS will determine the amount you qualify for by looking at the income and filing status on your 2019 tax return. If you haven't filed your 2019 return yet, they'll use the information from your 2018 return instead. If you don't typically file a return because you're not required to and are in retirement, the IRS will use the information from your social security Form SSA-1099 or your railroad retiree Form RRB-1099 to generate the payments.

You may want to delay or accelerate filing your 2019 tax return based on the amount of individual recovery rebate you qualify for in each year. For example, if you had a baby in 2019, you'd qualify for an additional $500 based on your 2019 return. Likewise, if you had a significant increase in income during 2019 that would reduce or eliminate your rebate, you may want to delay filing the return.

When will this come through? Treasury Secretary Steven Mnuchin has said he would like to see checks issued beginning in three weeks, but the government has until Dec. 31, 2020, to issue the payments. Payments will be directed to the bank account where taxpayers receive their tax refund or social security deposits, if enrolled in direct deposit, or as a check to their last known address.

Will the government contact me to verify information? No. It's important to note that there is no application process for this benefit. For most people, no additional information needs to be provided to the government in order to receive their recovery rebate.

If you are contacted by someone requesting your personal information to qualify you for the individual recovery rebate DO NOT RESPOND. It is most likely a scam designed to steal your identity or financial account information.

If you moved since filing your last tax return and are not enrolled in direct deposit for your tax refund, you should update your address with the IRS to ensure your payment isn't lost in the mail. You can update your address by filing IRS Form 8822.

The other group of people who will want to take action are those who are enrolled in direct deposit but moved their bank accounts since last filing their taxes. Unfortunately, the only way to do this at present is to file your 2019 tax return. However, the IRS is currently working on a web-based portal to allow taxpayers to update their payment information with the IRS.

To determine the best way to maximize your individual recovery rebate, contact one of our Wipfli LLP tax advisors.

Accessing funds through your retirement accounts

Congress is providing Americans with greater access to their retirement nest eggs to help families bridge the gap in their household budgets during the coronavirus fallout.

Coronavirus-related distributions

Normally, funds withdrawn from retirement accounts are subject to a 10% penalty if they are taken prior to the account owner turning 59.5. During 2020 only, Congress will allow cumulative withdrawals up to $100,000 from all retirement accounts without imposing a 10% penalty on the funds, so long as

you meet the qualifications. The loosened restrictions apply to retirement plan participants – those who have a 401(k), 403(b) or similar account through their employer – as well as IRA owners.

In order to qualify for these special distributions, you need to have experienced one of the following situations:

1) You were diagnosed with COVID-19
2) Your spouse or dependent was diagnosed with COVID-19
3) You experienced adverse financial consequences as a result of…
    a. Being quarantined
    b. Being furloughed/laid off/had work hours reduced
    c. Being unable to work due to lack of childcare
    d. Closing or reducing your business hours due to COVID-19

If you choose to access your employer retirement plan through one of these distributions, you do not have to provide any support to your employer to prove you qualify. If you qualify for coronavirus-related distributions, you will need to relay to your employer that you are taking a distribution under this provision. Congress has instructed employers to allow employees to determine their own eligibility.

Though the 10% penalty does not apply to these special distributions, any amount you take out will be counted as income on your tax return. Congress has further provided relief for this potential tax burden by allowing individuals who receive coronavirus-related distributions to spread the income over three years.

All coronavirus-related distributions will automatically be spread over three years, but you can elect to have the entire amount treated as income for 2020. This is an election that is made at the time the distribution is taken and cannot be reversed.

Determining whether this election should be made is going to depend on your overall tax situation. For example, if you foresee your income in 2020 being much lower than normal, it likely makes sense to make the election to have the full distribution taxed in 2020.

One final benefit Congress built into legislation on coronavirus-related distributions is the ability to repay the money you withdrew back into the retirement account at any point over the next three years. Repaying the distribution will potentially reduce the income tax that you pay on the distribution.

The three-year timeclock begins on the day you receive the funds. If you find you have the financial ability to put some money back into your retirement account, you can do so incrementally or all at once. The amount you can contribute to your account under this rule is limited to the value of your original withdrawal.

Taking a loan from your retirement account

In addition to the provisions Congress crafted allowing withdrawals from retirement accounts, you now have greater access to funds through loans on employer-sponsored retirement plans. These loans can only be made on retirement plans set up through your employer — such as 401(k), 403(b) or similar accounts. Loans cannot be taken on individual retirement accounts (IRAs).

Under these temporary rules, plan participants can take a loan up to the lesser of $100,000 or 100% of their vested retirement account balance. These loans are accessible for a limited time frame — from March 27, 2020, to Sept. 23, 2020. This provision also allows payments on retirement plan loans to be delayed for one year.

To determine if a coronavirus-related distribution can work for you and your family, contact one of our retirement plan advisors.

If you're an employer with questions on how to navigate all the changes to employment law — from leave time to retirement accounts — reach out to the Human Capital Management team at Wipfli LLP.

Required minimum distributions from retirement accounts

One of the biggest planning opportunities to come out of the CARES Act involves distributions from retirement accounts. By law, people who have reached a certain age (typically 72) are required to take annual withdrawals called Required Minimum Distributions (RMDs). These distributions normally must be made every year, regardless of whether the account owner needs the funds.

For 2020 only, the CARES Act removes the RMD requirement.

This provision applies to all RMDs that would normally be mandated during 2020, including those for individuals who would have been starting their RMDs for the first time this year. For those individuals who must distribute 100% of their account balance within a five-year window, they effectively now get six years. The legislation was also applied retroactively to Jan. 1, 2020, so distribution requirements that arose prior to the enactment of the CARES Act are also covered.

If you've already made a distribution from your retirement account to meet your RMD for 2020, you may still be able to put the money back, if you qualify with the below:

1. **You're the original owner of the account:** You may be able to re-contribute your distribution to your account if it was made within the prior 60 days.
2. **You inherited the account:**
    a. **You're a spousal beneficiary of the account:** If you inherited the account from your spouse, you may be able to re-contribute your distribution to your account if the withdrawal was made in the past 60 days.
    b. **You're a non-spouse beneficiary:** If you inherited the account from anyone other than your spouse and have already distributed your RMD for the year, unfortunately you **cannot** reverse the transaction.

If you're beyond the 60-day period, you can't roll the funds back in, **unless** you qualify for COVID-19 distribution. If you do, then treat it as if you're repaying the $100,000 allowable distribution as discussed above.

Without the enforced tax burden of RMDs, a number of planning options become available.

The first, and most obvious, is to simply not take the distribution if you don't need the funds. By electing to skip your RMD, you allow those funds to continue to grow on a tax-deferred basis and you save yourself from paying income tax on the distribution.

Alternatively, you can work with a tax advisor to determine exactly how much you should take out of your IRA or retirement account to "use up" your lower tax brackets. You may find yourself in a lower

tax bracket during the year because you no longer have to take an RMD. "Using up" your lower brackets allows you to take funds from your IRA at a lower tax cost. This strategy can either provide supplemental cash or the funds can be reinvested in another type of account.

Possibly the most powerful strategy to use with the elimination of RMDs is creating or maximizing your Roth IRA. Roth IRAs have a significant advantage over most other accounts because withdrawals from Roth accounts aren't taxed. Rather than paying tax when funds are distributed, the account owner puts after-tax funds into the account. After that, the investments in the account grow tax-free. These accounts also aren't subject to RMD rules.

Roth IRA balances can be increased substantially by executing Roth "conversions." A Roth conversion is when funds from a traditional IRA are withdrawn and then moved into a Roth IRA. The account owner pays tax on the amount moved, and there is no annual limit. As account values have declined significantly in recent weeks, you can essentially shift a larger percentage of your IRA to a Roth IRA at a lower tax cost right away.

Normally, laws that govern IRAs prohibit RMDs from being converted to Roth IRAs. In 2020, however, 100% of distributions made from traditional IRAs can be used to perform Roth conversions because RMDs are waived.

To discuss the best retirement account planning strategies for your unique situation, please reach out to our financial planning and investment advisory team at Wipfli Financial Advisors.

Changes to charitable giving

New in 2020, the IRS is allowing an above-the-line deduction of up to $300 for cash donations to charity. This specifically benefits taxpayers who donate cash to charities but don't itemize their deductions on the 'Schedule A' of the tax form. Taxpayers who already itemize receive the benefit of their charitable donations. This new deduction applies to tax years beginning in 2020, so you won't be able to use this on your 2019 tax return (which is due this year).

To encourage giving to the charitable organizations supporting our communities through the pandemic, the IRS has also altered the AGI limit on the charitable deduction for tax year 2020. For those taxpayers who itemize their deductions, their charitable deduction was formerly limited to no more than 60% of the taxpayer's AGI. The CARES Act removes that limit and replaces it with a 100% of AGI limit. This new, higher limit applies only to donations of cash and **excludes** donations made to 509(a)(3) supporting organization or donor-advised funds. The 100% AGI limit applies only to tax year 2020.

Relief regarding higher education costs

As of the enactment date of the CARES Act, the types of educational assistance payments employees can receive tax-free has been expanded. Employers can now offer student loan repayment benefits to their employees without adding that assistance to the employee's taxable income.

The new provision allows employers to provide up to $5,250 per employee, with payments being made either to the loan servicer or directly to the employee on any qualified education loan incurred by the employee for the education of employee. The repayments must be made before Jan. 1, 2021. These non-taxable benefits **do** reduce the amount a taxpayer can claim in interest payments for the student loan interest deduction, so be sure to consult a tax advisor on how to properly report both items.

In addition to this new employee benefit, the Department of Education has made significant moves to provide student borrowers with relief on their federal loan obligations.

As of the enactment date, all interest on federal student loans was suspended through Sept. 30, 2020. This allows individuals the ability to essentially pay down student loan debt, interest free. The Department of Education is also deferring all federal student loan payments until Sept. 30, 2020, and has suspended involuntary debt collections.

For more information on the recent developments in the area of student loans, check out our full update here.

Additional support for COVID-19 healthcare

With concerns growing around the economic burden of COVID-19 treatment, the CARES Act has altered some of the rules around healthcare accounts and insurance plans. The CARES Act now extended the healthcare savings account (HSA) and certain retirement plan contribution deadlines from April 15, 2020, to July 15, 2020.

Provisions covering HSA-eligible high-deductible health plans (HDHP) give insurance companies more leeway to offer coverage without applying deductibles or co-pays for COVID-19 related services. To reduce congestion in our hospitals, HDHPs may choose to temporarily cover telemedicine services and COVID-19 related treatment irrespective of plan deductibles.

Access to telemedicine has also been expanded for Medicare and rural health clinics. Medicare recipients can now schedule virtual check-ins with healthcare providers, a service that will be covered by Medicare. Medicare will cover lab tests needed to diagnose COVID-19 with no out-of-pocket costs. The CARES Act also stipulates that Medicare beneficiaries will receive the COVID-19 vaccine at no cost once it becomes available.

If you have questions about how else COVID-19 may impact you, or if you are looking for additional information, visit our COVID-19 resource center. We've put together a variety of information to help businesses and individuals weather the coronavirus.