Coronavirus Aid, Relief, and Economic Security (CARES) Act

Wealth Management

President Trump signed the largest relief package in U.S. history on March 27, extending aid to many struggling Americans through direct payments and expanded unemployment insurance. The package provides direct financial checks to many Americans, drastically expands unemployment insurance, offers hundreds of billions in loans to both small and large businesses, and provides health care providers with much needed additional resources as the COVID-19 virus spreads.

Highlights of the Act:

- $1,200 checks to many Americans plus $500/child that will be phased out based on income of more than $75,000
- Waiver of 2020 required minimum distributions from qualified retirement plan and IRAs
- Delayed IRS 2019 filing dates and payment dates to July 15th, 2020
- Retirement plan and IRA penalty-free distributions—with repayment plans over several years
- Retirement plan loan expansion and relief
- Delayed deadlines for IRA and retirement plan contributions for 2019
- New charitable tax break of $300 above-the-line deduction and up to 100% of adjusted gross income (AGI) for qualified donations
- Federal student aid and federal student loan payment extension through September 30, 2020
- Additional $600 a week in emergency unemployment relief and greater inclusion of workers not typically covered
- A massive emergency Small Business Administration nonrecourse loan program for small businesses, with generous forgiveness provisions
- Significant delay for employers to pay employment taxes
- Employment tax credits to finance sick leave for small businesses
- Extension of net operating loss carrybacks and carryforwards
- 461(l) excess loss limitation relief
- Deductible business interest expense relief

Relief for individuals and families

Recovery rebate

In order to soften the blow of lost income to consumers, **the CARES Act provides immediate tax rebate credit of $1,200 for an individual, $2,400 for couples filing joint return plus $500 per child.** For those with annual incomes more than $75,000 per individual taxpayer, **the rebate would phase out by 5% of any income over $75,000, gradually dropping to $0 for incomes above $99,000 per year.** Individuals who receive Social Security payments will get recovery rebates regardless of whether they file a tax return.

RMDs suspension for 2020

The Act also suspends required minimum distributions (RMDs) during 2020. The relief provided by this provision is broad and applies to Traditional IRAs, SEP IRAs and SIMPLE IRAs, as well as 401(k), 403(b), and Governmental 457(b) plans. Furthermore, the relief applies to both retirement account owners as well as to beneficiaries taking stretch distributions.

For individuals who turned 70 ½ in 2019, but did not take their first RMD in 2019 (and thus, would have normally been required to take their 2019 distribution by April 1, 2020, as well as a second RMD for 2020 by the end of 2020) do not have to take either their 2019 RMD or their 2020 RMD.

Retirement plan disbursements and loans

Eligible individuals will be able to take a penalty-free disbursement or loan from their vested qualified retirement accounts of up to $100,000 to pay for expenses or make up lost income related to the pandemic. These can then be repaid with additional contributions beyond the normal contribution limits during the next three years.

Income may be spread over three years — By default, the income from a coronavirus-related distribution is split evenly over 2020, 2021 and 2022. A taxpayer can, however, elect to include all of the income from a coronavirus-related distribution in their 2020 income.

Unemployment relief

The CARES Act provides states with the ability to increase their unemployment benefits by up to $600 per week with federally funded dollars, for up to four months. This has the ability to dramatically increase the amount of money an individual is entitled to temporarily receive via unemployment compensation benefits, as the average weekly unemployment benefit nationwide is less than $400.

In addition, unemployment compensation is extended by 13 weeks. In the event that people are nearing—and ultimately reach—the maximum number of weeks of unemployment compensation provided under state law, Section 2107 of the CARES Act will allow them to receive such benefits for an additional quarter.

During the covered period, individuals who operate under a sole proprietorship or an independent contractor, and eligible self-employed individuals, shall be eligible to receive a covered loan.

Charitable deduction

The bill enhances tax incentives for making charitable contributions. It creates a new above-the-line deduction of up to $300 for charitable donations and relaxes limits on other charitable deductions to increase charitable giving during the COVID-19 epidemic. This allows individuals to claim a deduction even if they don't itemize. For the 2020 tax year, individuals can deduct up to 100% of their AGI for a charitable contribution. This includes cash contributions and donations of food, and they apply to both individuals and corporations. This deduction does not apply to donor advised funds.

Education provisions

For students who receive various forms of financial aid, the Act generally keeps their aid in place despite disruptions to their school year. It authorizes use of financial aid grants specifically for the purpose of emergency aid to students. For students whose work is interrupted, it continues payment of work-study aid and aid awards for voluntary service-based aid programs, even if students cannot work due to the emergency. It waives suspension or recoupment of financial aid grants and loans if students cannot complete their semester, and it waives satisfactory progress requirements that are tied to financial aid. **For federal student loans, the Act suspends payments and interest for federal student loans through September 30, 2020.**

Treasury guarantee of money market mutual funds

The CARES Act authorizes the Treasury to use the Exchange Stabilization Fund to **guarantee money market mutual funds (MMMFs).** This was previously done during the 2008 financial crisis to prevent MMMFs from dropping below par with the dollar and prevent a potentially catastrophic run on MMMFs, but it was later prohibited under the Emergency Economic Stabilization Act of 2008. **This will complement the Federal Reserve's Money Market Mutual Fund Liquidity Facility, established in March 2020 in response to extreme market turbulence.**

Businesses and corporations

Businesses will also see tax benefits from the Act. The CARES Act provides employers with another payroll-related tax break. With the exception of employers who have debt forgiven by the CARES Act for certain loans provided by the Small Business Administration, employers are eligible to defer payroll taxes from the date of enactment through the end of the year, until the end of 2021 and 2022. More specifically, 50% of the payroll taxes that would otherwise be due during this period may be deferred until December 31, 2021. The remaining 50% is due on December 31, 2022.

Small business interruption loans

The Paycheck Protection Program is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. Borrowers can receive loans equal to 2.5 times their monthly payroll, mortgage, rent and debt payment expense, up to $10 million.

The Small Business Administration will forgive loans if all employees are kept on the payroll for eight weeks and the forgiven portion is only spent for payroll, certain employee benefits, rent, mortgage interest or utilities. Loan payments will also be deferred for six months. No collateral or personal guarantees are required. The Act directs the SBA to collect no fees for these loans and prepayment penalties are also waived. These loans will have maturity of 2 years and an interest rate of no greater than 4%. The program will be available starting April 3rd through June 30th.

Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease.

To be eligible for this program you must be a small business with less than 500 employees (including sole proprietorships, independent contractors and self-employed persons), or a private non-profit organization or 501(c)(19). Small businesses in the hospitality and food industry with more than one location could also be eligible at the store and location level if the store employs less than 500 workers. This means each store location could be eligible.

Employee retention credit

The CARES Act grants eligible employers a credit against employment taxes equal to 50% of qualified wages paid to employees who are not working due to the pandemic. The credit is available to be claimed quarterly, but the amount of wages, including health benefits, is limited to $10,000 per employee for all quarters. The employee retention credit is not available if the employer receives a covered loan from the SBA, described earlier.

Labor provisions

The CARES Act modifies some of the provisions of other recently enacted laws. It **modifies Emergency Family and Medical Leave Expansion Act paid leave to $200 per day or $10,000 total,** and pay under the Emergency Paid Sick Leave Act to $511 per day or $5,110 total per employee for their own use. Employees can also receive $200 per day or up to $2,000 total to care for others and any other substantially similar condition.

Assistance to severely distressed sectors of the economy

Beyond the loan guarantees to small businesses, the Act also authorizes **additional direct loans and loan guarantees to critical businesses, states and municipalities.** It appropriates $500 billion in direct loans and guarantees to businesses to provide liquidity to cover losses incurred as a direct result of the COVID-19 epidemic. Some of these are already earmarked for the air transportation industry, while the majority is left uncommitted. As further assistance to the hard-hit airline industry, the Act suspends air travel and aviation fuel excise taxes for the duration of the COVID-19 epidemic.

There are a few ground rules for these loans and guarantees. First, in order to prevent taxpayer money from being used to fuel big raises or bonuses for corporate executives, the Act caps total compensation for any employee making more than $425,000 in total compensation at their 2019 pay (or double their 2019 pay in the case of severance packages). Second, for the air transportation industry, it allows the secretary of the Treasury to require that borrowers maintain routes and services to areas and airports served prior to March 2020.

Health care response

The CARES Act directs various federal agencies and industry to marshal medical resources to address the current and future outbreaks. It orders studies on medical device supply chain security, mandates that national stockpiles include protective masks and equipment, expedites approval of drugs and medical devices to treat epidemics, mandates notification from the industry of critical drug and medical device supply chain interruptions, and **waives Food and Drug Administration approval for COVID-19 tests produced by states or recognized test developers.**

For patients, the Act requires that health insurance plans cover the full cost of COVID-19 testing and that testing companies publish prices. It also requires full insurance coverage of immunizations or preventive services, which have yet to be developed for COVID-19.

Health care providers

The Act **appropriates $1.32 billion in grants for COVID-19 testing by federally funded health care centers. It authorizes expedited staffing of permanent direct hires for the National Disaster Medical System.** It extends federal support for telemedicine with grants of $29 million per year for the next five years to telehealth networks and resource centers, and it also extends federal support for rural health care with grants of $79.5 million per year for the next five years. Importantly, it protects volunteer health care workers from liability for treatment of COVID-19 in pre-emption of state laws, allowing health care providers to treat patients and work to contain outbreaks where they might otherwise not be licensed or face liability. **The Act also streamlines patient medical record information sharing for the epidemic and authorizes home delivery of medical nutrition services for patients who are self-isolating.**

Federal health agencies

The CARES Act increases procurement flexibility for the Public Health Service, and it expedites approval of drugs to prevent transmission of animal disease to humans.

It also modifies various health care mandates and expands Medicare's ability to cover treatment and services for those affected by the virus. It increases flexibility for Medicare to cover telehealth services, authorizes Medicare certification for home health services by nurse and physician assistants in addition to doctors, and increases Medicare payments for COVID-19-related hospital stays and durable medical equipment.

Contact your financial advisor to help provide clarity during this turbulent time.