



## COVID-19 stimulus package offers relief to affected individual taxpayers

To help mitigate the financial and health crises related to the coronavirus (COVID-19), on Friday, March 27, 2020, President Trump signed into law the largest economic relief package in modern U.S. history. The \$2 trillion Coronavirus Aid, Relief, and Economic Security Act (CARES Act) is intended to shore up the country on multiple fronts and includes several components aimed at individuals.

### **Recovery rebates**

One of the aspects receiving the most attention is the CARES Act's so-called "recovery rebates." The federal government will generally make direct payments of up to \$1,200 to those who file their federal income tax returns as single filers or heads of households; married couples filing jointly can receive up to \$2,400. Additional \$500 payments will generally be made per qualifying child.

The nontaxable rebates are subject to phaseouts based on adjusted gross income (AGI) as reported on taxpayers' federal 2019 income tax returns. If 2019 returns haven't been filed, the 2018 tax returns will be used. The phaseouts begin at \$75,000 for singles, \$112,500 for heads of household and \$150,000 for married couples. Payments are completely phased-out for single filers with AGIs exceeding \$99,000 and for joint filers with no qualifying children and AGIs exceeding \$198,000. For a head of household with one child, the payment is completely phased out when AGI exceeds \$146,500.

### **Expanded unemployment benefits**

The CARES Act increases unemployment compensation benefits significantly, providing an extra \$600 per week for up to four months, over and above state unemployment benefits. The expansion generally applies to those who can't work as a direct result of COVID-19.

The law generally provides temporary full federal funding of the first week of unemployment benefits through December 31, 2020, for states that opt to pay recipients as soon as they become unemployed, rather than requiring a one-week waiting period. And it provides an additional 13 weeks of unemployment benefits through year end, generally for those who remain unemployed after state unemployment benefits are no longer available.

The law also creates a temporary Pandemic Unemployment Assistance program through the end of the year. The program generally will extend unemployment benefits to workers who

traditionally don't qualify for them — meaning self-employed individuals, independent contractors, those with limited work histories and others.

### **Penalty-free early retirement distributions**

The CARES Act waives the 10% early distribution penalty for COVID-19-related withdrawals from IRAs, 401(k) plans and certain other retirement plans made on or after January 1, 2020, and through December 31, 2020. The waiver applies to distributions made to an individual:

- Who's diagnosed with COVID-19,
- Whose spouse or dependent is diagnosed with COVID-19, or
- Who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of child care because of COVID-19, or the closing or a reduction of hours of a business owned by the individual due to COVID-19.

Eligible individuals can withdraw up to \$100,000 penalty-free. They can repay withdrawn funds within three years of the day after the distribution without regard to the applicable cap on annual contributions. To the extent such early distributions aren't repaid within this period, the related income tax will be prorated over three years.

### **Waived required minimum distribution rules**

The CARES Act similarly waives the required minimum distribution (RMD) rules for certain defined contribution plans and IRAs for calendar year 2020. This will help individuals avoid a financially imprudent sale of retirement assets during the stock market downturn.

The waiver covers both 2019 RMDs required to be taken by April 1, 2020, and RMDs required for 2020. It applies for calendar years beginning after December 31, 2019.

### **Expanded charitable contribution deductions**

Individual taxpayers can take advantage of a new above-the-line \$300 deduction for cash contributions to qualified charities in 2020. "Above-the-line" means the deduction reduces AGI and is available to taxpayers regardless of whether they itemize deductions.

The CARES Act also loosens the limitation on charitable deductions for cash contributions made to public charities in 2020, boosting it from 60% to 100% of AGI.

### **Student loan relief**

Under the CARES Act, employers can provide up to \$5,250 annually toward employee student loan payments on a tax-free basis before January 1, 2021. The payment can be made to the employee or the lender. (The employee can't take a student loan interest deduction for any loan payment for which the exclusion is available.)

The law also allows individuals to stop making payments on federal student loans through September 30, 2020, without incurring penalties or late fees. In addition, no interest will accrue on federal student loans during this period. And the government is temporarily suspending garnishments to collect on federal student loans.

## **Mortgage and foreclosure relief**

Homeowners with federally backed mortgages can request forbearance, regardless of their delinquency status and without incurring penalties, fees or interest. Eligible homeowners must submit a request to their loan servicers and affirm financial hardship during the COVID-19 emergency. A servicer is required to grant forbearance for up to 180 days and to extend it for an additional period of up to 180 days at the borrower's request.

Further, except for vacant or abandoned property, servicers of federally backed mortgages can't initiate any foreclosure process, move for a foreclosure judgment or order of sale, or execute a foreclosure-related eviction or foreclosure sale for at least 60 days, starting March 18, 2020.

Borrowers with federally backed mortgages on multifamily properties can request a forbearance for up to 30 days if they were current on their loans on February 1, 2020. They also can request two additional 30-day extensions.

## **The swiftly changing environment**

No one knows when the COVID-19 public health emergency will end, or for how long the economic repercussions will linger. We'll keep you informed on the latest developments and help you plan for a more stable financial future.

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