CARES Act Summarized

A Look at the Major Provisions of the Coronavirus Aid, Relief, and Economic Security Act

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A Look Inside the **$2 Trillion Aid Package**

As the stock market hit its lowest returns since the 2008 Financial Crisis, the government has stepped in as an attempt to boost the economy. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) produces roughly $2 trillion in relief funding, tax breaks and loans for individual Americans and businesses impacted by the COVID-19 virus.

This is one of the biggest spending bills to have passed and is aimed at providing relief to the millions impacted by work stoppages, health concerns and financial hardship caused by the novel coronavirus.

The CARES Act, which will impact nearly every American, consists of six main sections: employment, individual and business assistance, support for the health care system, economic stabilization, coronavirus relief funds, and miscellaneous provisions.

There are many aspects to the CARES Act that affect individual, business and retirement planning. While time will tell as to how much the law impacted the economy, one thing is certain: most Americans will be impacted.

Who Does the CARES Act Help?

» Individuals
» Hospital systems
» Small businesses
» Large corporations
» Public healthcare
» Federal aid programs
» State and local governments
» Student loan recipients

Impact on Individuals

The most notable provision for individual Americans is the stimulus payment. The CARES Act promises $1,200 to individuals and $2,400 to married couples, with an additional $500 per child under the age of 17. This payment is non-taxable, but there are some restrictions and additional details you should understand.

Cash Payments

To receive payment, individuals must have a Social Security Number. Nonresident aliens and adult dependents don't receive payments.

There are also income limits to the $1,200 payments. To receive the full amount, individuals must have an adjusted gross income of $75,000 or less and $150,000 or less for married couples. After that, payments begin to phase out, where the payment is reduced $5 for every $100 of gross income over the threshold. For heads of households (single with kids), that income phaseout begins at $112,500.

Payments are based on your 2020 adjusted gross income, but they will be paid based on your 2018 or 2019 tax return or Social Security filings (depending on if you filed your taxes for 2019 yet). The payment will be reconciled for all others when you file your 2020 tax return. However, it is possible that the Treasury department creates some system for those individuals that have not filed taxes in the past few years to request a payment.

If you have not yet filed your 2019 taxes – the deadline has been extended to July 15. This also means that 2019 contributions to IRAs, Roth IRAs, and HSAs have been extended to July 15, 2020.

Example

A married couple making $180,000 a year in adjusted gross income would receive a total of $900 instead of $2,400.

$2,400	STANDARD CASH PAYOUT
$180,000	ADJUSTED GROSS INCOME
- $150,000	AGI THRESHOLD
$30,000	REDUCTION INCREMENT /100 x 5 = $1,500
$2,400	
- $1500	REDUCTION
$900	**PAYOUT**

Unemployment Benefits

The CARES Act created a new unemployment payment that will be in addition to unemployment payments made by your state. This program, called Federal Pandemic Unemployment Compensation, is an additional $600 a week for up to four months. If you think four weeks

in a month for four months, that is roughly $9,600. This will be above and beyond what the state provides in unemployment.

It also provides the possibility of an additional 13 weeks of unemployment benefits through December 31, 2020, to help those who remain unemployed but are seeking work after state unemployment benefits have been exhausted.

In addition to unemployment, the CARES Act also adds benefits through the end of the year for individuals who work as freelancers or contracted workers and have lost work as a result of the pandemic.

Employee Sick or Medical Leave Benefits

The CARES Act also requires most employers to provide employees with paid sick leave or expanded medical or family leave. While these provisions change quite a bit based on an employers size and type of organization, it generally requires employers to provide payment if an employee can't work because they are quarantined or sick, or if they need to care for someone who is quarantined or sick. Here's how it breaks down:

» **Two weeks (up to 80 hours) of paid sick leave at the employee's regular rate of pay** if the employee can't work because of required quarantine or symptoms or diagnosis of COVID-19.

» **Two weeks of paid sick leave at two-thirds the employee's regular rate of pay** if the employee can't work because they need to care for an individual subject to quarantine or they need to care for a child whose school or child care provider is closed.

» **Up to an additional 10 weeks of paid expanded family and medical leave at two-thirds the employee's regular rate of pay** where an employee is unable to work due to a caring for a child whose school or child care provider is closed.

Healthcare Provisions

While there are a number of provisions that deal with hospitals and public health, on an individual basis you may see an impact through your Health Savings Account or insurance plan.

Medicare and all private insurance plans are required to cover COVID-19 related tests, treatments and possible vaccines.

Meanwhile, qualified medical expenses from HSAs were expanded to include a number of expenses, including over-the-counter medical products needed in quarantine or for social distancing.

Remember if you or someone you know loses your job and health insurance coverage you can continue coverage under COBRA for a while. However, COBRA can be an expensive option, but sometimes still the best option. For others, the Affordable Care Act is still in effect and if you lose your job and insurance you should go to HealthCare.gov and search in your state for options. You also might qualify for Affordable Care Act subsidies if you are unemployed.

Impact on Retirement Plans and Giving

The CARES Act provides numerous provisions that relate to retirement plans – aimed at helping those who may need additional income support after losing a job, contracting or being affected by COVID-19, or being impacted financially by coronavirus.

Retirement Plans

For starters, the new law waives the 10% penalty tax for early withdrawals from a retirement account of up to $100,000 if made on or after January 1, 2020. In this scenario, taxable income can be spread out over three years and repaid within three years of the date of distribution if the individual is impacted negatively financially by COVID-19.

While further clarification may be needed, this provision can provide numerous planning opportunities for individuals depending on the definition of "impacted negatively financially."

In addition to early withdrawals, requirement minimum distributions (RMDs) from defined contribution plans and IRAs for 2020 are suspended. This helps individuals avoid selling investments while the market is down.

Most retirees need their required minimum distribution withdrawals to get by in retirement. But for those who may not and have automatic or quarterly RMDs set up, you might want to reach out to your advisor or financial services institution and suspend those distributions. If you have done an RMD within the past 60 days, you could use the once-a-year (12 month period) 60-day IRA rollover to get the money back into a tax deferred account.

If you can suspend your withdrawals for a year, it can help your portfolio out in a time of high volatility.

Charitable Giving

Even if you do not itemize your taxes, there is now a $300 above-the-line deduction of cash contributions to churches and other charitable organizations for 2020. Additionally, individuals will have no adjusted gross income (AGI) limit on charitable contributions for 2020.

For example if you have $100,000 of AGI, you could give in cash up to $100,000 and deduct it this year, essentially wiping out your AGI. This is not a super common strategy, but for those that sold a business or had another large taxable event occur in 2020, a large charitable gift could make sense.

Corporations also had their charitable contribution limits raised from 10 percent of taxable income to 25 percent of taxable income for 2020.

These provisions encourage individuals to continue charitable donations to help nonprofits as unemployment and financial strain rises.

Impact on Businesses and Students

The CARES Act provides support to small- and medium-sized businesses and large corporations alike. Of the $2 trillion stimulus, $500 billion goes to the Treasury's Exchange Stabilization Fund to provide loans, with $31 billion for direct spending to airlines and cargo planes. The other funds will be distributed by the Treasury to hospitals, state governments, and other businesses impacted by the virus.

Business Loans

The primary way the CARES Act will help small businesses is through the creation of the Paycheck Protection Program, a nearly $350 billion program that provides eight weeks of cash flow to small businesses through federal loans.

These loans can be forgiven if payroll and other factors are met. This will likely be the best strategy for many small business owners to stay in business and keep their employees during a prolonged quarantine period or economic slowdown. This essentially gives small businesses the cash flow they need to maintain the business. The goal here is to protect businesses, so when the worst has passed they will be able to go back to work and move forward.

Tax Benefits

For businesses with net operating losses from 2018, 2019 or 2020, these losses can be carried back for five years and can fully offset taxable income.

Meanwhile, employer-side payroll taxes, FICA and half of SECA for self-employed individuals, are delayed until December 31, 2021, with 50% then due and the remainder due by December 31, 2022. This provides significant cash flow relief for the next two years.

The CARES Act Retention Credit will provide a refundable payroll tax credit for 50 percent of wages paid to employees during the COVID-19 crisis. Credit is available if operations were fully or partially suspended due to a COVID-19 shutdown order or if gross receipts declined by more than 50 percent that same quarter.

The credit is for the first $10,000 of compensation paid to an employee, from March 12 to December 31, 2020. This is a very sizable tax credit for businesses that kept their employees during the economic slowdown.

Student Loans and Higher Education

The CARES Act includes the Higher Education Emergency Relief Fund, which provides roughly $14 billion for private and public higher education universities and colleges to assist in offsetting the costs associated with their closures.

The institutions must use 50 percent of the funds received to provide special aid grants to students impacted by the shutdowns and closures. The Department of Education is charged with the distribution of funds and has been provided guidance on how to distribute.

There is also a provision that allows you to stop paying your federal student loans from the passage of the bill through September 30, 2020. Interest will not accrue, because the CARES Act waives student loan interest during this time. So, if you choose to stop making payments, your balance should not go up before September 30, 2020.

If you were hoping to take advantage of the Public Service Loan Forgiveness program, which requires 120 monthly payments, the skipped payments from passage of the bill through September 30, 2020, will count. For most people in this program it is likely the best course of action to freeze payments since it will still count toward your 120 payments for purposes of the loan forgiveness program.

It is important to note that this freeze on payments and interest only applies to federal student loans and does not apply to private student loans.

The bill also excludes up to $5,250 from income from any employer payment made before January 1, 2021, to an employee for purposes of paying principal or interest on a qualified student loan.

Furthermore, the involuntary collection of student loans during this period is also suspended.

A Look Ahead

While the CARES Act does not guarantee economic growth or a stock-market rebound, it does provide help to millions of Americans at a time when unemployment is rising and retirement accounts have taken a hit.

The law brings emergency relief at a time that Americans are practicing social distancing, working remotely, or worse – not working at all.

As history looks back on the COVID-19 pandemic, the CARES Act will play a significant role in how the U.S. economy recovers.

Disclosure

Contact Info

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