Third Quarter 2020

CARES Act Financial Considerations

The Coronavirus Aid, Relief, and Economic Security Act included some important changes to charitable gifts, emergency withdrawals and loans from retirement accounts, deductibility of losses on taxes and even the required minimum distribution for those over 70½. The following highlights important changes that may affect you.

The true cost of the COVID-19 pandemic will only be known in hindsight, but it is causing economic disruption at unprecedented speed and scale. The CARES Act, which was enacted on March 27, 2020, is estimated by the Congressional Budget Office to increase the federal deficit by about $1.7 trillion over the 2020-2030 period. More than 30 million new unemployment insurance claims have been filed since the outbreak of the pandemic. Travel, recreation and restaurant industries have been financially devastated. Tax collections have plummeted, damaging state and municipal budgets.

While it might be tempting to think there is little one can do to counter the impact of the pandemic, there's actually a great deal one can and should be doing with respect to financial issues.

CARES Act Opportunities

- Charitable Contributions
- Retirement Accounts
- Loss Carry Backs

Encouragement of Charitable Contributions

Beginning with the 2020 tax year, taxpayers who take the standard deduction are allowed to deduct up to $300 from taxable income (in addition to the standard deduction) for qualifying charitable contributions made in cash.

For those taxpayers who itemize deductions, qualifying charitable CASH contributions to an eligible public charity during 2020 can be deducted up to their Adjusted Gross Income, less all other charitable contributions otherwise deductible for the year under the normal charitable contribution limits. Contributions made to donor advised funds and 509(a)(3) supporting organizations are excluded.

The law also increases the income limits on contributions of wholesome food inventory made during 2020 from 15% to 25%. Contributions in excess of the allowable amounts can be carried over to the taxpayer's subsequent tax year and will be subject to the limitations in place under the existing laws.

Early Withdrawals and Loans from Retirement Funds

Early withdrawals up to $100,000 from retirement accounts for "coronavirus-related distributions" can be made per individual without the 10% early withdrawal penalty. Amounts withdrawn may, at the election of the taxpayer, be reported as taxable income ratably over the 2020, 2021 and

2022 tax years. Or, the individual may repay up to the amount distributed to an eligible retirement plan any time during the three-year period beginning on the day after the date the distribution was taken.

To qualify as "Coronavirus-related distributions," distributions taken on or after January 1, 2020 and before December 31, 2020 need to be made to:

- An individual diagnosed with COVID-19 by a CDC approved test,
- An individual whose spouse or dependent has been diagnosed with COVID-19, or
- An individual who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, unable to work due to child care needs or closing or reduction in hours of a business operated by the individual.

The CARES Act increases the amount an individual can borrow from a qualified employer plan from $50,000 to $100,000 and employees may borrow up to the present value of their entire nonforfeitable balance in the plan (versus the previous 50% limitation). This law is in effect for a 180-day period from the date the law was enacted (March 27, 2020). Any payments due between March 27, 2020 through December 31, 2020, including loans existing prior to the law being passed, are delayed for one year.

Temporary Waiver of Required Minimum Distribution Rules

To help investors conserve their retirement assets in the wake of the coronavirus pandemic and the associated market volatility the CARES Act includes a temporary waiver for 2020 RMDs, as well as added flexibility to "roll back" RMDs to an IRA or employer-sponsored plan. It applies to both:

- 2020 RMDs, including ones from IRAs, inherited IRAs, and employer-sponsored plans such as 401(k) plans.
- 2019 RMDs due by April 1, 2020, for individuals who turned 70½ last year and didn't take the RMD.

Delay in Effective Date of Limitations on Deductibility of Losses

The Tax Cuts and Jobs Act of 2017 limited an individual's ability to deduct trade or business losses in excess of certain thresholds (known as the "excess business loss" limitation), starting with the 2018 tax years. The CARES Act delays the effective date until the 2021 tax year. Taxpayers who were subject to this limitation on their 2018 and (if filed already) 2019 tax returns can amend these returns to claim a refund.

Taxpayers that incurred a net operating loss in taxable years beginning after December 31, 2017 and before January 1, 2021, may carry back these losses to each of the five taxable years preceding the taxable year of the loss. Taxpayers that do not wish to carryback losses generated in 2018 and/or 2019 must make an election to forego the carryback periods by the due date (including extensions) of their return for the first taxable year ending after March 27, 2020. The law removes the 80% taxable income limitations and allows for taxpayers to fully offset their taxable income for tax years beginning before January 1, 2021.

This is a very condensed explanation of the CARES Act changes and is intended for informational purposes and not as financial or tax planning advice. Please consult with your financial advisors before taking any action on this information.

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