Q&A: Understanding the New CARES Act

Presented by Oliver Scholle

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) into law. The CARES Act has been enacted as a direct response to the COVID-19 pandemic and is intended to provide immediate and ongoing economic relief to individuals and businesses affected by the crisis.

The following Q&A covers key questions you may have about the legislation.

Recovery Rebates

Q: Will I get a stimulus check? How much will it be?

A: Due to the passage of the CARES Act, individuals and families with incomes below certain thresholds can expect to receive a check (or direct deposit), known as a "recovery rebate," from the government.

The amount of the check will be based on your adjusted gross income (AGI) from your 2019 income tax return, if filed, or, if not yet filed, your 2018 tax return. Most individuals can find their AGI on line 7 of your 2019 Form 1040. For 2018, your AGI will be listed in the following location, depending on which form you filed:

- Form 1040-EZ: Line 4
- Form 1040: Line 37
- Form 1040-A: Line 21

For individuals who receive social security benefits and do not file taxes, the government will use information from their social security statement to determine eligibility. For many Americans who are not on social security and who also do not file income tax returns, the bill will effectively require those individuals to file a return to become eligible for a stimulus check. Nonresident aliens, individuals claimed as dependents on someone else's return, and estates and trusts are not eligible for payment.

The following chart shows how much individuals can expect to receive, depending on their AGI and tax filing status.

Filing Status	AGI Less Than . . .	Payment Amount
Individual	$75,000	$1,200
Head of Household	$112,500	$1,200
Married Filing Jointly	$150,000	$2,400

In addition, families will receive an extra $500 per child younger than age 17.

Taxpayers with AGI above established thresholds will see their payment amount reduced by 5 percent of the income exceeding the threshold ($5 of every $100 in income), which means certain individuals will not receive a stimulus check, as outlined below.

Filing Status	**Completely Phased Out at AGI of . . .***
Individual with No Children	$99,000
Head of Household with One Child	$146,500
Married Filing Jointly with No Children	$198,000

*Add $10,000 to AGI per child to determine complete phaseout amount for filers with children younger than 17.

Q: I am retired and no longer working. Will I still get a check?
A: As long as your income is under the threshold and you are not claimed as a dependent on someone else's tax return, you should be eligible for a recovery rebate.

Q: When will I get my check?
A: The timing of the checks is still undetermined; the law simply states that payment is to be made "as rapidly as possible." If the last time Americans received checks as part of an economic stimulus package is any indication, individuals and families could expect the cash in two to three months, as that was the time frame in 2008. Under that package, however, taxpayers were required to file their most recent tax return before becoming entitled to the funds, which is not the case with the CARES Act. Government officials have expressed an intent to have the payments sent out in mid to late April.

Retirement Accounts

Q: Do I have to take my required minimum distribution (RMD) this year?
A: No. Under the CARES Act, all RMDs for 2020 are suspended. This includes individuals who turned age 70½ in 2019 and were waiting until 2020 to take their first RMD.

Q: What if I already took my RMD?
A: If you took an RMD within the last 60 days, you may be able to return it to your retirement account without penalty before the expiration of 60 days. If you took your RMD more than 60 days ago, then it is likely you will need to qualify for a COVID-19-related distribution (as discussed in the next Q&A) in order to be able to return the distribution to the account without penalty.

Q: I need to access funds from my retirement account because of the crisis. Will I be penalized?
A: Individuals are permitted to take a penalty-free distribution of up to $100,000 from their retirement account if they, or a spouse or dependent, are diagnosed with COVID-19 or if they experience negative financial consequences (e.g., job loss) as a result of the pandemic. In addition, individuals may elect to spread the taxation of the withdrawn amount over the next three tax years, rather than including the full amount as taxable income in 2020. Individuals may also recontribute any amounts withdrawn under this provision at any time over the three-year period, tax free, even if the amount being returned exceeds the annual plan contribution limit.

Q: What if my money is in an employer-sponsored plan (e.g., 401(k), 403(b)), and I'd prefer to take a loan?
A: The borrowing limit from an employer-sponsored retirement plan has been increased from $50,000 to $100,000 for the 180-day period following the bill's enactment.

Contact your employer's Human Resources department or the retirement plan administrator for more information on plan loans.

Taxes

Q: When do I need to file my taxes?
A: The deadline for filing federal taxes has been extended to July 15, 2020. Some states have extended their deadlines as well, but be sure to consult with your tax professional to ensure that you comply with official filing and payment dates.

Q: Does the delay in the tax filing and payment deadline mean I can delay contributions to my retirement account?
A: Yes, the contribution deadline for IRAs has been extended to July 15 as well.

Q: How does the bill encourage people to give to charitable causes (e.g., to help organizations aiding in the crisis)?
A: For the 2020 tax year, taxpayers can take an above-the-line charitable deduction of up to $300 for certain charitable contributions. Typically, charitable contributions are deductible only for individuals and couples who itemize rather than use the standard deduction. Contributions to a donor-advised fund are not eligible for this treatment.

In addition, for 2020, the deduction available on cash contributions to charitable organizations has been increased from 60 percent of a taxpayer's AGI to 100 percent. (Contributions to donor-advised funds are not eligible.) For corporations, the deductibility of cash contributions has been increased temporarily from 10 percent to 25 percent of taxable income.

For answers to more specific questions related to IRS deadlines and payments, visit the IRS's Filing and Payment Deadlines page. The IRS has also established a special section on its website dedicated to Coronavirus Tax Relief.

Student Loans

Q: How does the bill affect my student loan payments?
A: Borrowers of federal student loans will not be required to make student loan payments prior to September 30, 2020, and interest on the loans will not accrue during such time period.

For more information, visit the Department of Education's Federal Student Aid website, which provides guidance for students, borrowers, and parents during the coronavirus outbreak.

Economic Hardship and Job Loss from COVID-19

Q: I lost my job or my ability to make an adequate living as a result of the crisis. How will the CARES Act help?

A: In addition to any weekly unemployment compensation available to an individual under state law, unemployed individuals are entitled to an additional $600 per week for a period lasting until July 31, 2020, termed "Federal Pandemic Unemployment Compensation."

In addition, although states typically do not fund an individual's first week of unemployment, the bill provides federal funding for such first week of unemployment compensation for any state that chooses to participate.

Certain individuals would also be entitled to "Pandemic Emergency Unemployment Compensation," which could fund an additional 13 weeks of unemployment compensation if their benefits under state law are exhausted, provided they meet certain requirements.

Each state has its own unemployment system. CareerOneStop, a site sponsored by the U.S. Department of Labor (DOL), offers information on how to file for unemployment across all states. You may also visit the DOL's Coronavirus Resources page for additional information for employees.

Q: What if I am self-employed or otherwise not typically eligible for unemployment benefits?

A: Individuals who self-certify that they have been adversely affected by the COVID-19 pandemic, including individuals who typically are not otherwise entitled to unemployment compensation under state law (e.g., self-employed), may receive unemployment compensation for a period of up to 39 weeks commencing January 27, 2020. The amount payable to self-employed individuals will be calculated based on 50 percent of the average weekly compensation in that individual's state. The amount will also include the $600 Federal Pandemic Unemployment Compensation noted above.

Q: What if I can't afford my mortgage or rent?

A: The CARES Act has provisions affording individuals the ability to defer mortgage payments under certain circumstances. This relief is limited to loans backed by the federal government. Individuals affected by the COVID-19 pandemic may seek a forbearance of payment on their federally backed mortgage for a period of up to 180 days. Owners of multifamily homes with a federally backed mortgage may seek forbearance of payment for up to 90 days, provided they do not attempt to evict a tenant or charge late fees.

Lenders of federally backed mortgages are prohibited from instituting foreclosure on a borrower for a 60-day period commencing March 18, 2020. Landlords who have federally backed mortgages are prohibited from initiating eviction proceedings against tenants for the 120-day period following the enactment of the CARES Act.

More information and resources on mortgage payment relief are available from the Federal Housing Finance Authority.

Small Business Loans

Q: My business has been economically harmed by the COVID-19 crisis. Am I eligible for a loan?

A: Small businesses (in most circumstances, defined as employing 500 or fewer employees) will be eligible for forgivable government-backed small business loans under the “Paycheck Protection Program.” Borrowers may be allowed to defer payment of such loans for up to one year; the amount of forgiveness will depend on expenses and the number of employees retained during the crisis, as further described below.

The Small Business Administration is required to provide guidance for lenders on the deferral process within 30 days of the enactment of the bill. The interest rate on such loans cannot exceed 4 percent. You can contact your local Small Business Development Center for help in determining access and eligibility for the Paycheck Protection Program.

In addition, the CARES Act increases the accessibility of an SBA Economic Injury Disaster Loan (EIDL) related to the COVID-19 crisis to more recipients (e.g., ESOPs and sole proprietors). It also eliminates the requirement of personal guarantees for loans of less than $250,000, the provision that businesses must have been operating for more than one year, and the “credit elsewhere” requirement.

For further information on eligibility, including how to apply, please visit the SBA’s Disaster Assistance page and the Small Business Guidance & Loan Resources page.

Q: How much can I get?

A: For a Paycheck Protection Program loan, the total maximum allowed loan amount will be calculated based on the average monthly payroll expenses of the business over the prior year, not to exceed $10 million.

Q: How much of the loan amount could be forgiven?

A: An employer recipient of a COVID-19-related SBA loan may seek forgiveness for a portion of its Paycheck Protection Program loan amount for expenses incurred for maintaining payroll, group health insurance, and certain preexisting debt and utility obligations during the eight-week period following the origination of the loan. The amount of forgiveness will be reduced if there is a decrease in the business’s total number of employees and/or a significant decrease in compensation to employees during the period of February 15, 2020, through June 30, 2020.

Q: What other parts of the bill are helpful to businesses?

A: Small businesses may also be interested in the following provisions:

Tax credit for wages. Businesses that were forced to suspend operations due to the COVID-19 pandemic and experienced a significant decline in gross receipts as compared to the prior year may be eligible for a payroll tax credit of up to 50 percent of wages paid during the crisis. Only the first $10,000 of wages per employee would qualify for this credit. Eligibility for this credit depends on a number of factors and can be affected by how many employees the business has.

Delay of payment of employer's share of FICA tax. Employers will be allowed to delay payment of their share of payroll taxes due from the time of the passage of the bill until December 31, 2020. Fifty percent of the amount otherwise due for the 2020 tax year will be due by December 31, 2021, with the balance payable by December 31, 2022.

Modification of NOL rules. With the Tax Cuts and Jobs Act of 2017 (TCJA), businesses were limited in their ability to use net operating losses (NOL) to offset income. Under the CARES Act, NOL arising from the tax years 2018 and later may be carried back five years to offset income in such years. The legislation also temporarily removes the income limitation on using NOL to offset income. As a result, some businesses may be able to amend past tax returns and generate tax refunds that were otherwise unavailable.

Enhanced ability for noncorporate taxpayers to use losses. For the years 2018 through 2020, passthrough entities and sole proprietors may use excess business losses. The TCJA had disallowed noncorporate taxpayers from using excess business losses to offset income until 2026. The CARES Act carves out the ability for such entities to access those losses and potentially increase liquidity.

Increase in ability to deduct interest expense. The cap on a business's ability to deduct its interest expenses is increased from 30 percent of the business's adjusted taxable income to 50 percent for the years 2019 and 2020.

Acceleration of corporate AMT credits. Businesses with leftover alternative minimum tax credits can accelerate the recovery of such credits.

Stay Up to Date

The stimulus bill provides wide-ranging assistance to individuals and businesses that have been or will be negatively affected by the COVID-19 pandemic. As this crisis represents an unprecedented interruption in people's lives and in the economy, more legislative action and government intervention may be forthcoming. Be sure to connect with your tax professional for a greater understanding of how the CARES Act may affect you.

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