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Whitney Planning Note - CARES ACT 2020

Last Friday congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act which is a massive stimulus package to provide relief for families, individuals, small businesses, and other parts of our economy affected by the COVID-19 outbreak. The CARES Act has various benefits from direct payments for individuals and families, loans and tax breaks for small businesses, and emergency lending to big businesses and governments (local & state). Below we have highlighted several aspects of the Act which we thought may be a benefit to you and your family during these difficult times.

Tax Deadline Pushed Back To July 15th

The treasury moved Tax Day from April 15th to July 15th to allow those experiencing a cash crunch to delay payments. This move brought into question the 2019 deadline for retirement account contributions. Is it April 15th or now July 15th? Per newly issued IRS guidance all contribution deadlines are extended to July 15th. This gives people more time to decide whether to contribute for 2019. We would encourage you to contribute if you are able to especially with the lower valuation of today's markets.

Stimulus Checks

You have probably heard about these checks, but here is a quick refresher on the details: $1,200 to each adult individual and $500 for each child under the age of 17 in a household *(dependents aren't eligible)*. The checks are subject to the following adjusted gross income (AGI) limits: $75,000 for individuals; $150,000 for married couples; $112,500 for head of household. Payments are completely phased out at the following AGI levels: $99,000 for individuals; $198,000 for married couples; $136,500 for head of household. The funds should be distributed in the next few weeks. The stimulus checks, if you are eligible, would be a great source of funds for making your 2019 IRA contributions mentioned above.

Suspension of 2020 Required Minimum Distributions (RMDs)

The CARES act has suspended RMDs for account owners and beneficiaries for 2020. This waiver is beneficial as it provides individuals with the option of leaving money in their tax deferred accounts, allowing the accounts to recover from the drop in the market value. It also provides some tax relief by allowing you to reduce your income, this can be especially helpful as RMDs are based on the December 31, 2019 higher account values. Those who turned 70 ½ in 2019 that did not take their first RMD in 2019 have the double benefit of forgoing the 2019 and 2020 distribution.

Should you forgo your RMD for 2020? This depends on your situation. You should consider taking some, or all, if you are in a relatively low bracket for 2020 and expected to be in higher bracket in the future or if you could lose the benefit of any tax provision such as a state offered pension annual exclusion. New York provides a $20,000 annual exclusion which should be considered. Certainly, take the distribution if needed for cashflow purposes but if not then forgoing could be a benefit.

What happens if you have already taken your 2020 RMD and want to undo it? If you have taken your distribution within the last 60 days, then you can roll it back into a retirement account within the 60 days. This can be done once per year under current IRS rules. However, if you are outside this window then you still may be able to roll back the distribution if you can demonstrate that an individual has been impacted by the COVID-19 crisis. If you qualify for the COVID-19 hardship, then you have three years in which to replace the funds. Unfortunately, if you are the beneficiary of an inherited retirement account and have already take your RMD there is no way to get it back into the inherited retirement account.

Additional Relief For Retirement Accounts

The act waives the 10% early distribution penalty on retirement account distributions up to $100,000 in 2020 for those under 59 ½ and who have been affected by the COVID-19 crisis. To be considered as "affected by the crisis" the retirement account owner or spouse would need to either be diagnosed with COVID-19 or experiencing adverse financial consequences as a result of an event, including but not limited to quarantine, furlough, lay-offs, reduced work hours, no available childcare, business closing or reduced business hours (self-employed), or other factors determined by the Secretary of the Treasury.

If deemed to be affected by the crisis then income taxation on the distribution can be spread evenly over a three-year period or fully taxed in 2020. The funds can also be replaced during this period with no taxes owed. This may be a benefit for those that truly need the money during this period however it may be best to explore other options to allow the investments to recover on a tax deferred basis.

Charitable Giving Incentives For Cash Contributions

The CARES Act has increased the AGI limitation on cash gifts to charity. Current tax law states that deductions are limited to 60% of AGI for cash contributions. However, for 2020, the CARES Act has increased the limit to 100% of AGI. This means that you could possibly eliminate your 2020 tax obligation. This only applies for tax year 2020. This Act also provides a $300 above the line deduction for cash gifts to charity. This above line deduction is a permanent addition to tax code so can be used for 2020 and beyond. Any cash contributions to donor-advised-funds aren't eligible for these incentives.

We have highlighted the parts of the Act that we felt were the most important to the majority of our clients. There are plenty of other aspects of this Act that deal with small and large business relief and unemployment benefits. Please reach out if you need any additional details on any part of the CARES Act and how it pertains to your situation.

The Whitney Planning team is here to help you with navigating your financial affairs and to assist in making the best decisions for you and your family, so please reach out.

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