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Retirement Wealth Management

A Brief Discussion of the CARES Act

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You may wish to log on to the Tax Foundation and/or to the National Law Review for a detailed discussion of the CARES Act.

A Brief Discussion of the CARES Act

In late March, in response to the worldwide coronavirus pandemic, the U.S. Congress passed the Coronavirus Aid, Relief and Economic Security Act (the CARES Act). President Trump signed the CARES Act into law on Sunday March 27, 2020.

The CARES Act is 880 pages long and contains dozens of complicated provisions. In this paper, we will briefly describe a few of the provisions that will affect many individual taxpayers.

1. Direct Payments to Taxpayers. Single taxpayers who had adjusted gross income of \$75,000 *or less* in 2019 will receive a one-time payment of \$1,200. Married-filing-joint taxpayers who had adjusted gross income of \$150,000 *or less* will receive a one-time payment of \$2,400. In addition, taxpayers will receive \$500.00 for each qualified child.
2. Required Minimum Distributions (RMDs). RMDs from tax-qualified retirement accounts are suspended for 2020. Retirement accounts that normally require RMDs include traditional IRAs, Inherited IRAs, 401-(k)s, 403(b)s, and 457(b)s. Many taxpayers have already taken some or all of their RMDs from these accounts. These taxpayers may want to return some or all of their RMDs.

If the RMD was taken within the past 60 days, the distribution can be rolled-over into the retirement plan under the once-per-year rollover rule. The taxpayer can simply write a check equal to the amount of the RMD and deposit it back into the retirement account before the end of the 60-day rollover window.

There is *potentially* another way to return RMDs to their accounts. However, the law is not clear at this time on this way to do so. That is, taxpayers *may be able* to qualify for a special exemption due to being impacted by COVID-19 because they:

- a. Have been diagnosed with COVID-19 or has a spouse or dependent who has been diagnosed with COVID-19.
- b. Have experienced adverse financial consequences as a result of being quarantined, furloughed, laid off or had work hours reduced due to COVID-19.
- c. Are unable to work because they lack childcare due to the disease.
- d. Own a business that has closed or has been forced to operate under reduced hours due to the disease.
- e. Meet some other criteria that the IRS establishes.

3. Early Withdrawal Penalties. The 10% penalty on early withdrawals from qualified retirement accounts before age 59½ will be waived in 2020, up to a \$100,000. This provision applies to taxpayers who have been impacted by the coronavirus because they:
 - a. Have been diagnosed with COVID-19 or have a spouse or dependent who has been diagnosed with COVID-19.
 - b. Have experienced adverse financial consequences as a result of being quarantined, furloughed, laid off or had work hours reduced due to COVID-19.
 - c. Are unable to work because they lack childcare due to the disease.
 - d. Own a business that has closed or has been forced to operate under reduced hours due to the disease.
 - e. Meet some other criteria that the IRS establishes.

Even though the 10% early withdrawal penalty can be waived, the government will not waive the federal income taxes that are due on the withdrawal. However, taxpayers can pay their federal tax liability over a three-year period.

4. Loans from Employer-Sponsored Retirement Plans. Many employer sponsored retirement plans offer participants the option to borrow a portion of their retirement assets. Taxpayers who have been impacted by Covid-19 (using the criteria we listed above) can receive an enhanced loan on their retirement assets:
 - a. A loan up to \$100,000 (the normal maximum loan is \$50,000).
 - b. Once an individual has a vested plan balance of \$20,000 *or more*, they are normally eligible to take a loan of up to 50% of that amount (up to the maximum of \$50,000). The CARES Act amends this rule so that eligible individuals can take a loan equal to their vested balance, dollar-for-dollar, up to \$100,000.
5. Charitable Contributions. Traditionally, the charitable contribution deduction is a below-the-line deduction available only to taxpayers who itemize. However, the CARES Act allows taxpayers who do not itemize to deduct up to \$300 in cash contributions made to qualifying charitable organizations.

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