



A Summary of the CARES Act
by Jason Foster, Director of Financial Planning

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Greetings Everyone,

I hope everyone is doing as well as they can be in this difficult environment.

I wanted to follow up to give everyone a quick overview of the Coronavirus Aid, Relief and Economic Security (CARES) Act. I'm sure most of you have heard about this legislation that was passed last Friday, March 27th, and many of you may have already absorbed various aspects that are relevant to you. But for those who have not, I have put together a summary of what I consider to be the most noteworthy and applicable provisions within the Act:

For Individuals –

Cash Payout

- Individuals can receive up to \$1200 per person. This starts phasing out at \$75,000.
- Married couples can receive up to \$2400 per couple. This starts phasing out at \$150,000.
- There is an additional payout of \$500 per dependent child under the age of 17.
- This is considered a 2020 rebate check, based on your Adjusted Gross Income (AGI) for either your 2019 or 2018 tax return, whichever return has been most recently filed. If you qualify for a payment based on your 2018 tax return, but made more money in 2019, you should hold off filing your 2019 tax return because the payout you receive will be larger. You have until July 15th to file your 2019 tax return and pay any taxes due.
- If your income drops in 2020, and you qualify for a payment (or a larger payment) based on your 2020 tax return, any remaining credit that you are eligible for will be refunded or deducted from your tax liability when you file your 2020 taxes.
- If your income goes up in 2020 and you would qualify for less of a payment (or no payment at all), the IRS will not pursue you for what would be considered an overpayment.
- If you owe back taxes, you still will receive a payment if you qualify for one.
- People that only receive social security are eligible, and there is no minimum income necessary to receive the rebate.
- Payments are expected to go out in 3 to 6 weeks.
- The Washington Post has a simple calculator to use to see if you qualify for a payment and provides an estimated amount: <https://www.washingtonpost.com/graphics/business/coronavirus-stimulus-check-calculator/>.

Retirement Accounts

- Required Minimum Distributions (RMDs) for retirement accounts have been waived in 2020. This applies to owners of traditional IRAs that are at least 70 1/2, and all individuals who own inherited IRAs. If this is applicable, you may have already received an email from us regarding this RMD waiver in 2020. Please contact us if you have questions.

- Those individuals who have already taken RMDs in 2020 have the option of returning them within 60 days of the distribution. This does not apply to those that have taken RMDs from inherited IRAs. We are happy to handle this rollover back into your IRA.
- Individuals that need to access retirement funds prior to 59 1/2 because they (or immediate family members) have contracted the virus, or because they have experienced adverse financial consequences, can do so and the 10% penalty will be waived up to \$100,000.
- If you do need to access retirement funds prior to 59 1/2, the distribution is still taxable as ordinary income, but it can be taxed over a 3-year period to dilute the overall tax effect. You also can recontribute the withdrawn funds back into the retirement account for 3 years without affecting retirement account contribution caps.
- 401K and 403B account loan amounts have been increased from \$50,000 to \$100,000, and payments on the loans can be delayed for up to 1 year without penalty.

Unemployment Benefits

- For those that are unfortunately experiencing job loss, there are extra benefits available. Jobless workers will get an extra \$600 per week on top of the normal benefit they qualify for, and this federal subsidy is set to last for up to 4 months. For context, the maximum benefit for CO residents is \$484 per week, so Coloradans could qualify for \$1084 per week of relief.
- The federal government will make sure benefits are available the first week workers apply for unemployment (there is a normal one week waiting period before benefits kick in).
- 13 weeks of additional unemployment insurance will be added to the maximum benefit period in CO. This amounts to a total available benefits period of 39 weeks.
- These benefits have also been expanded to independent contractors, self-employed individuals and “gig” economy workers.
- There is more information on filing for unemployment benefits specific to CO at <https://www.colorado.gov/pacific/cdle/file-claim>.

Student Loans

- Payments for all federally owned student loans are deferred through September 30th without penalty to the borrower. No interest will accrue on these payments. This deferral does not apply to privately held student loans.

Charitable Tax Deductions

- A permanent \$300 above-the-line charitable contribution deduction is now available on your tax return for those that are charitably inclined, even if the standard deduction is being utilized.
- The 50% Adjusted Gross Income (AGI) deduction limitation for charitable contributions has been suspended. For 2020, the Act allows individuals to receive a charitable contribution deduction of up to 100% of their 2020 AGI. This could allow certain clients to wipe out their 2020 tax liability utilizing charitable contributions. If this contribution exceeds 100% of AGI for 2020, it may be carried forward up to 5 years.

For Small Businesses, Non-Profits, Self-Employed Individuals, Sole Proprietors, and Independent Contractors –

Economic Injury Disaster Loans (EIDLs)

- This program, typically reserved for natural disaster situations, has been expanded, allowing for SBA loans up to \$2 million with 30-year terms. The CARES Act has added \$10 billion into this program.
- Interest rates are set at 3.75% for small businesses and 2.75% for non-profits.
- No payments are due for a full year and no personal guarantee or collateral is necessary for loans smaller than \$200,000. Approval of loans are based solely on the applicant’s credit score.

- There are emergency grants of \$10,000 available that can be forgiven if spent on paid leave, maintaining payroll, increased costs due to supply chain disruption, mortgage or lease payments, or repaying obligations that cannot be met due to revenue loss. The \$10,000 can be available even if the applicant doesn't qualify for additional funds.
- The requirement of not being able to obtain credit elsewhere is waived. You can apply for these loans directly through the SBA at www.SBA.gov/disaster. No timeline for approval on an application has been given.

Payment Protection Program

- \$350 billion is being poured into a program that will back small business loans through local lenders. The loans are offered up to a maximum of the lesser of \$10 million, or 2.5x the average monthly payroll costs for the 1-year period prior to the date on which the loan is made. Payroll costs are capped at \$100,000 per employee.
- These loans are available at 1%. Payments are deferred for 6 months. Even though the loan is based on payroll costs, it can be used for any operational expenses.
- The loan will be forgiven, at least up to the amount utilized to pay employee's wages, so long as the business continues to employ the same number of workers and pays these workers through June 2020. The forgiven debt will not be treated as taxable income to the business owner.
- The loan can be acquired by application and providing payroll documentation. You also must certify that the current economic uncertainty makes the loan necessary to maintain operations.
- Like the above EIDLs, no personal guarantee or collateral is necessary and you can apply at a lender approved or certified by the SBA. The loan application process will be expedited.

Other Business and Employee Benefits

- Employers are eligible for a 50% refundable payroll tax credit of certain wages paid up to \$10,000 during the crisis if employers were "disrupted" during the crisis and gross receipts decreased 50% or more from the same quarter last year.
- Employers can contribute up to \$5250 of annual tax-free benefits toward employee student loans.
- Employers can delay 6.2% of the employer's share of social security tax through 2020 and pay this tax over a 2-year period beginning in 2021.

These are the main takeaways from the CARES Act passed into law on March 27th. I have attempted to summarize the most impactful provisions as they relate to you within this memorandum. As more action is taken and more information becomes available, we will reach out to keep you informed. As a reminder, Colorado Financial Management is not licensed or insured to provide tax advice or practice as a Certified Public Accountant. Please consult your CPA or tax preparer as it relates to your individual circumstances.

Jason Foster
Director of Financial Planning