



C.W. O'Conner Wealth Advisors, Inc.

# Update on Coronavirus Aid, Relief, and Economic Security (CARES) Act

March 2020

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# CONGRESS PASSES CARES ACT

In response to the growing coronavirus pandemic and its resulting impact on the U.S. economy, Congress passed the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) on Friday, March 27. This “phase three” stimulus package, estimated at more than \$2.2 trillion, is the most expansive to date. It follows an earlier \$8 billion bill (phase one) focused on vaccine development and prevention efforts and a \$100 billion package (phase two) expanding paid sick leave, enhancing unemployment insurance, and providing free coronavirus testing.

The “phase three” CARES Act follows:

- “Phase One” (\$8.3B, March 6)
  - Extra funding to the CDC, FDA, NIH, State Department, SBA, USAID
  - Included \$4B for more coronavirus testing and \$1B for loan subsidies to small businesses
  
- “Phase Two” (\$100B, March 18)
  - Free coronavirus testing, including for the uninsured
  - Two weeks of paid sick and family leave
  - Increased federal funds for Medicaid and food security programs
  - Increased unemployment insurance benefits

Source: Axios – “The growing coronavirus stimulus packages”

# WHERE THE STIMULUS IS DIRECTED

Provision	Cost (Billions)
Loans to Large Businesses & Local Governments*	\$510
Small Business Assistance	\$377
Recovery Rebate Checks	\$290
Business Tax Cuts	\$280
Expanded Unemployment Benefits	\$260
Healthcare-Related Spending	\$180
Aid to State & Local Governments**	\$150
Support to Transportation Providers & Industries	\$72
FEMA Disaster Assistance Fund	\$45
Food Stamps & Safety Net	\$42
Education Spending	\$32
Individual Tax Cuts	\$20
Other Spending	\$25

Source: Committee for a Responsible Federal Budget (CRFB)

\* Includes \$454B for Federal Reserve lending facilities

\*\* Allocated on population proportions, with a minimum \$125B per state

# CARES ACT – INDIVIDUAL PROVISIONS

## Recovery Rebate Checks:

- One-time cash payment of \$1,200 to individuals and \$2,400 to married filing jointly couples
- An additional \$500 for each qualifying child under age 17 (with no limit on the number of qualifying children)
- The payment is reduced by \$5 for every \$100 a taxpayer's income exceeds the adjusted gross income (AGI) threshold

Filing Status	AGI Threshold	AGI Limit (Phaseout)
Single	\$ 75,000	\$ 99,000
Head of Household, with One Child	\$ 112,500	\$ 146,500
Married Filing Jointly	\$ 150,000	\$ 198,000

*Note: Each qualifying child increases the AGI limit by \$10,000 for purposes of the rebate calculation*

- The credit will be determined based on the taxpayer's adjusted gross income (AGI) as reported:
  - On an already filed 2019 tax return
  - The 2018 AGI if the 2019 tax return has not yet been filed, or
  - Information from the 2019 Form SSA-1099 if a 2019 or 2018 individual tax return has not been filed.

# CARES ACT – INDIVIDUAL PROVISIONS

## Charitable Deductions:

- The Act suspends for 2020 the AGI limitation for qualifying *cash* contributions made to public charities (private foundations, supporting organizations, and donor-advised funds do *not* qualify)
- Allows taxpayers who itemize deductions to potentially deduct up to 100% of their AGI remaining *after* accounting for all other charitable contributions subject to AGI limitations
- Must make active election on tax return
- The Act does *not* specify that such cash contributions be made for COVID-19 relief efforts
- For taxpayers that do not itemize deductions, the Act provides for a new “above-the-line” charitable deduction up to \$300

## Tax Returns:

- The April 15 federal income tax filing and payment deadline has been extended to July 15. Since the federal government’s announcement, many states have followed suit with a similar extension.

# CARES ACT – INDIVIDUAL PROVISIONS

## Expanded Unemployment Benefits:

- The Act provides for an additional \$600 per week from the federal government on top of state-provided unemployment benefits. The federally paid increase will last for four months. Unemployment insurance is also extended through December 31 for eligible workers.

## Pandemic Unemployment Assistance:

- The Act creates a new, temporary program to assist self-employed individuals, freelancers, and contractors who lose employment due to the public health emergency. The program will run through the end of 2020.

## Coronavirus Testing:

- All testing and potential vaccines will be covered at no cost to patients.

# CARES ACT – RETIREMENT PROVISIONS

The CARES Act provides special withdrawal provisions for those impacted by the coronavirus. “Qualifying individuals” are defined as:

- An individual who is diagnosed with COVID-19 by a test approved by the CDC
- Whose spouse or dependent is diagnosed with such virus, or
- Who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, or having work hours reduced due to such virus; being unable to work due to lack of child care due to such virus; closing or reducing hours of a business owned or operated by the individual due to such virus or disease; or other factors as determined by the Secretary of Treasury.

## Tax-Favored Withdrawals from Retirement Plans (including IRAs)

- Coronavirus-related distribution up to \$100,000 may be taken from an eligible retirement plan before December 31, 2020
- The 10% early withdrawal penalty (for those under age 59½) does not apply to any coronavirus-related distribution
- Distribution may be included in gross income (for income tax purposes) ratably over three years beginning in 2020
- Coronavirus-related distribution may be repaid at any time during the three-year period beginning on the day after the date on which such distribution was received. Any repaid amount is treated as a rollover and is not included in gross income.

# CARES ACT – RETIREMENT PROVISIONS

## Loans from Qualified Plans

- Applicable for qualified individual taking a loan during the 180-day period beginning on the date of the enactment of the Act
- Increase the dollar limit on loans to \$100,000 from \$50,000 and increase the percentage limit to 100% from 50% of the present value of the employee's vested accrued benefit
- Repayment of new qualified loans, and existing loans, may be suspended for up to one year. At the end of the one-year suspension, the loan balance and accrued interest must be re-amortized.

## •Required Minimum Distributions (RMDs)

- Suspension of RMDs for calendar year 2020 from qualified defined contribution plans and IRAs (defined benefit plans excluded)

## •Plan Amendments

- Non-governmental plans have until end of 2022 plan year to adopt necessary plan amendments
- Governmental plans have an additional two years (until end of 2024) for amendments

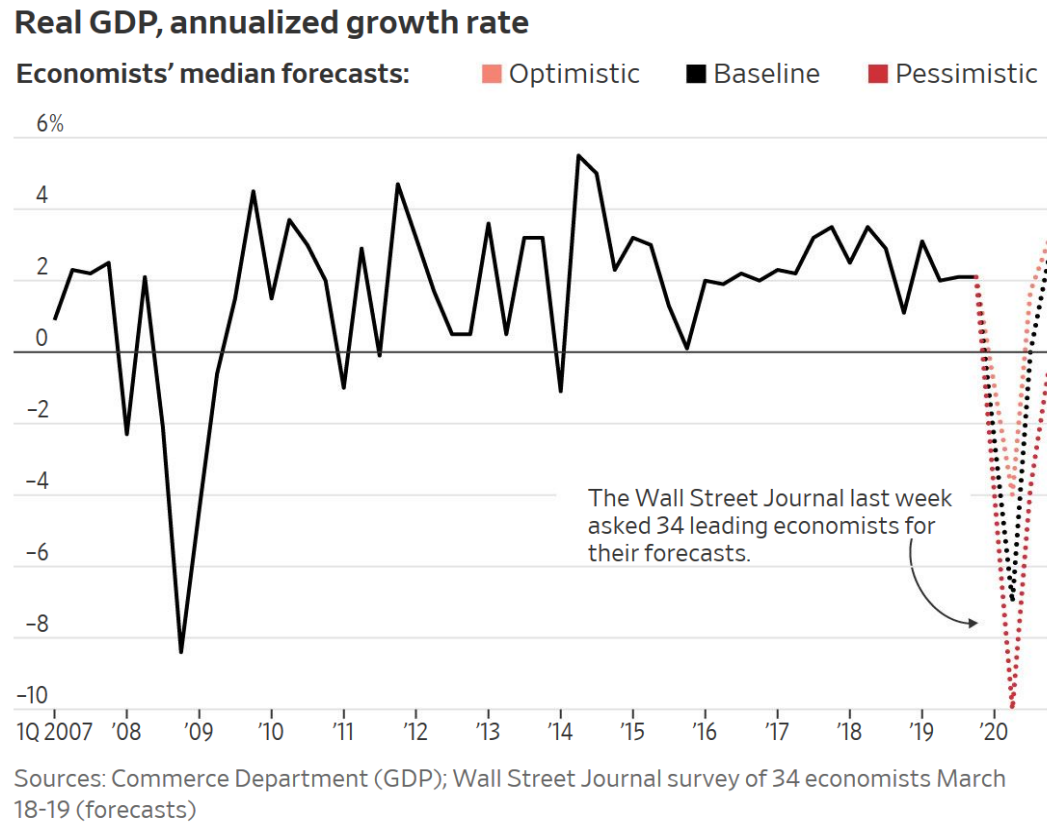
## •Defined Benefit Plan Relief

- 2020 ERISA-required minimum contributions delayed to January 1, 2021 (*note: Interest will be added to amount due.*)
- Plan may use 2019 funded ratio for determining benefit restrictions



# LESSONS LEARNED FROM 2008?

*Given the speed with which the U.S. economy is slowing down, the government has acted quickly to limit the economy damage wrought by the coronavirus.*

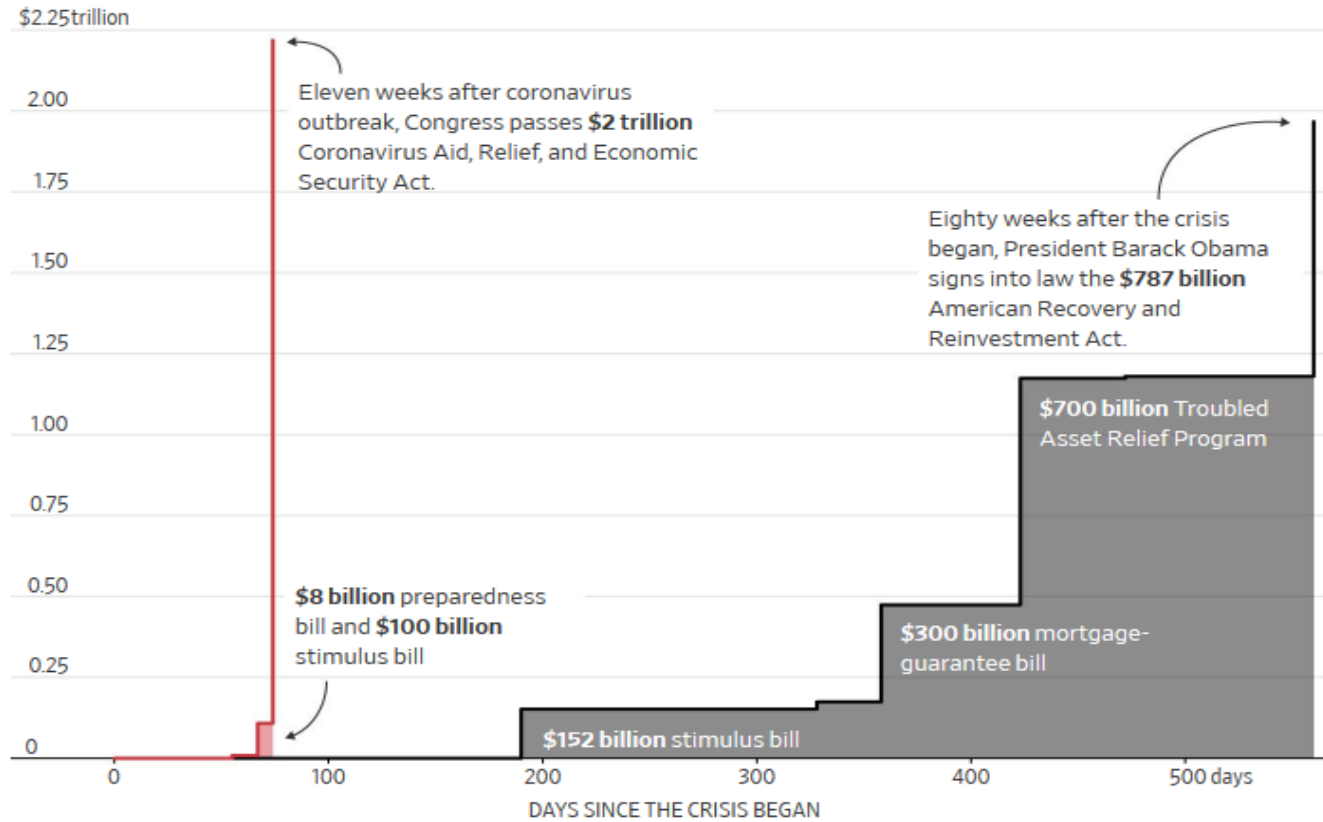


Source: WSJ – “How Fast the Economy Crashed and Washington Responded – in Charts”

# LESSONS LEARNED FROM 2008?

## Total funds authorized by Congress

- Since China reports first death from coronavirus (Jan. 11, 2020)
- Since early signs of a financial crisis\* (Aug. 7, 2007)

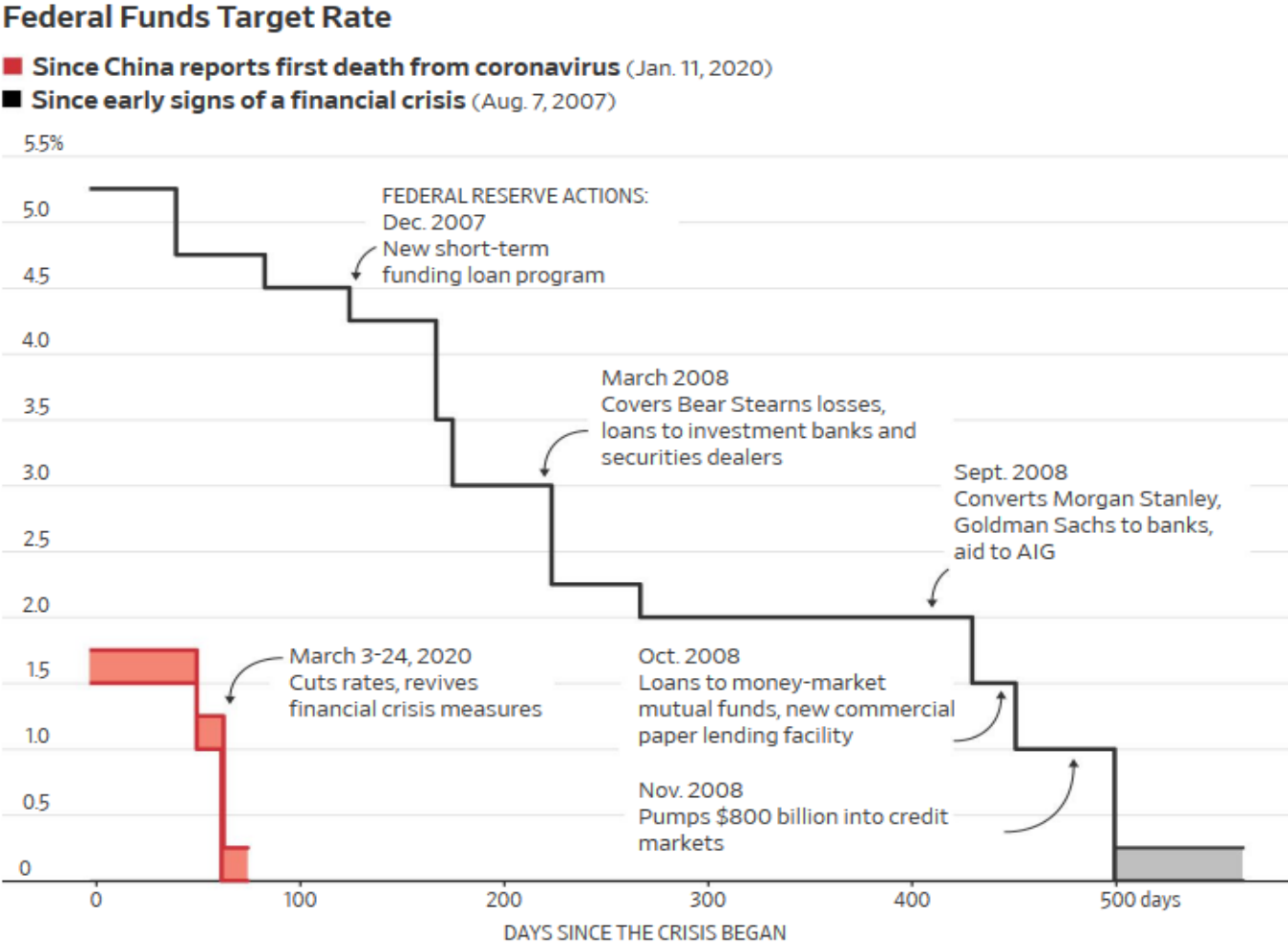


\*BNP Paribas becomes first major financial institution to report major mortgage-related distress by freezing subprime mortgage funds.

Sources: Congressional Budget Office; White House; Congressional estimates

Source: WSJ – “How Fast the Economy Crashed and Washington Responded – in Charts”

# LESSONS LEARNED FROM 2008?



Source: WSJ – “How Fast the Economy Crashed and Washington Responded – in Charts”

# COULD FURTHER STIMULUS BE AHEAD?

Shortly following the passage of the CARES Act, discussion already began over the potential for another emergency spending bill to avert further economic damage, with debate possibly starting by late April.

Senate Minority Leader Chuck Schumer noted, “This is certainly not the end of our work here in Congress – rather the end of the beginning.”

# QUESTIONS? WE'RE HERE TO HELP.



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