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What Is the CARES Act and What Does It Mean for Me?

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The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), passed nearly unanimously by Congress, was signed into law by President Trump on March 27. It represents one of the largest relief packages in the history of our nation, worth about \$2.2 trillion, and has many provisions for individuals and business owners. We will summarize some of the key provisions here from information drawn from the Internal Revenue Service (IRS) website. If you have questions pertaining to your individual situation, we recommend you consult with your tax professional.

Tax Filing and IRA Contributions. The traditional tax day of April 15 has been pushed back three months to July 15. There is no penalty or interest

due if you owe the government for filing your taxes up to this new date, and you can file an extension beyond then if needed. This also means that it is not too late to make an IRA contribution for tax year 2019. It must now reach your account by July 15, 2020.

No RMD for 2020. The requirement for a Required Minimum Distribution (RMD) from your IRA is waived for 2020. Recall that the SECURE Act, passed at the end of last year, raised the RMD age from 70.5 to 72 but in light of the financial crisis, no one needs to take one this year. This strikes us as very fair because IRA balances were very high at the end of 2019, following a tremendous

year in the market, and the RMD is calculated based on the year-end balance.

Economic Impact Payments. In April the government started paying U.S. citizens below a certain income threshold a stimulus payment in order to cushion the blow from the economic fallout of the coronavirus. Tax payers who had already filed were among the first to receive these payments and then Social Security recipients. The government is in process of verifying payment information for the remaining recipients who are due this payment. The amount is \$1,200 per individual and \$500 per dependent child.

Paycheck Protection Program (PPP). For business owners, the government is lending money in order to keep them from having to lay off workers and I have spoken to several of our clients who have been approved for this type of loan. The CARES Act initially approved \$350 billion for this program, but the money was used up so quickly, they had to approve an additional \$310 billion subsequently. One of the provisions of this program is that the loan can be forgiven if the employer uses up to 75% of the loan for payroll and benefits purposes. These funds are accessed through your local bank with an application process and are good for an 8-week period.

IRA and Retirement Plan Distributions. Qualified individuals may take distributions from qualified plans like a 401k, 403b, or traditional IRA in

calendar year 2020 under certain conditions. A qualified individual is one who has been diagnosed or had a spouse or dependent diagnosed with the coronavirus by a test approved by the Center for Disease Control (CDC). A qualified individual



could also be someone who has experienced “adverse financial consequences” from being quarantined, furloughed, laid

off, or had work hours reduced because of the coronavirus as an employee or business owner, or has been unable to work because of lack of child care (see <https://www.irs.gov/newsroom/coronavirus-related-relief-for-retirement-plans-and-iras-questions-and-answers>).

Such an individual is allowed to take up to a \$100,000 distribution without the normal 10% penalty one would pay under age 59.5. The distribution is still taxable as income, but you are allowed to pay taxes on it over a 3-year period for tax years 2020, 2021, and 2022. If you repay the distribution within three years, it is not taxable at all. Please note, *we do not recommend taking a distribution like this unless it is absolutely necessary to avoid bankruptcy.* Having a significant amount taken out of a retirement account will hurt the ability for that account to compound and grow during what we expect to be an economic recovery as the economy starts to open back up.

A Word from Terry

Many of our clients have noticed a substantial increase in the trading activity in their accounts. This is by design. We have been adding some new funds and removing others that have not performed up to our expectations. It seemed best to do this at a time of tumult in the markets since we already were carrying larger than usual cash positions. Also, for our taxable accounts, fund prices were down which makes the tax impact smaller. We have been working to put more emphasis and resources on sectors of the market that will most benefit from the recovery from the Covid-19 crisis.

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