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THE CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT “THE CARES ACT”

March 31, 2020

Dear Client:

We hope that you are keeping yourself, your loved ones, and your community safe from COVID-19 (commonly referred to as the Coronavirus). We will operate in faith rather than fear, we will resort to prayer instead of panic and replace helplessness with hopefulness. This is a very surreal time in our history and along with paramount health concerns, you may be wondering how some of the recent tax changes will help you cope with the Coronavirus fallout. I want to update you on the tax-related provisions in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, economic stimulus package signed into law on March 27, 2020.

Recovery rebates for individuals. To help individuals stay afloat during this time of economic uncertainty, the government will send up to \$1,200 payments to eligible taxpayers and \$2,400 for married couples filing joints returns. An additional \$500 payment will be sent to taxpayers for each qualifying child dependent under age 17.

Rebates are gradually phased out, at a rate of 5% of the individual's adjusted gross income over \$75,000 (singles or married filing separately), \$122,500 (head of household), and \$150,000 (married filing jointly). Under these rules, the credit is completely phased-out for a single filer with AGI exceeding \$99,000 and for married filing jointly with no children with AGI exceeding \$198,000.

For a head of household with one child, the credit is completely phased out when AGI exceeds \$146,500.

Individuals who have no income, as well as those whose income comes entirely from non-taxable means-tested benefit programs such as SSI benefits, are eligible for the credit and the advance rebate. There is no minimum income floor.

Children who are (or can be) claimed as dependents by their parents aren't eligible individuals, even if they have enough income to have to file a return. It makes no difference if the parent chooses not to claim the child as a dependent, because the dependency deduction is still "allowable" to the parent.

An individual who wasn't an eligible individual for 2019 may become one for 2020. For example, where the individual was a dependent for 2019 but not for 2020. The IRS won't send an advance rebate to such an individual, because advance rebates are generally based on information on the 2019 return. However, the individual will be able to claim the credit when filing the 2020 return.

If an individual hasn't yet filed a 2019 income tax return, the IRS will determine the amount of the rebate using information from the taxpayer's 2018 return. If no 2018 return has been filed, the IRS will use information from the individual's 2019 Form SSA-1099, Social Security Benefit Statement, or Form RRB-1099, Social Security Equivalent Benefit Statement.

In other words, even though the credit is technically for 2020, the law treats it as an overpayment for 2019 that IRS will rebate as soon as possible during 2020.

Most eligible individuals won't have to take any action to receive an advance rebate from the IRS. This includes many low-income individuals who file a tax return to claim the refundable earned income credit and child tax credit.

The IRS may make the rebate electronically to any account to which the payee authorized, on or after Jan. 1, 2018, the delivery of a refund of federal taxes or of a federal payment.

No later than 15 days after distributing a rebate payment, IRS must mail a notice to the taxpayer's last known address indicating how the payment was made, the amount of the payment, and a phone number for reporting any failure to receive the payment to IRS.

Identification number requirement. No credit will be allowed to an eligible individual who doesn't include the individual's valid identification number on the tax return for the tax year.

On a joint return, the valid identification number of the individual's spouse must be included. But this requirement doesn't apply if at least one spouse was a member of the U.S. Armed Forces at any time during the tax year and at least one spouse's valid identification number is included on the joint return.

If a qualifying child is considered when figuring the credit, the child's valid identification number must also be included on the return.

A "valid identification number" means a social security number. For a qualifying child who is adopted or placed for adoption, the child's adoption taxpayer identification number is a valid identification number.

The rebates are not available to nonresident aliens, to estates and trusts, or to individuals who themselves could be claimed as dependents.

Under [Code Sec. 24\(h\)\(7\)](#), a "social security number" must be issued by the Social Security Administration to a U.S. citizen or to an alien who is eligible to be employed in the U.S. Also, the number must have been issued by the due date of the return.

Waiver of 10% early distribution penalty. A distribution from a qualified retirement plan prior to attaining the age 59 ½ is normally subject to a 10% additional tax unless the distribution meets an exception.

The additional 10% tax on early distributions from IRAs and defined contribution plans (such as 401(k) plans) is waived for distributions made between January 1 and December 31, 2020 by a qualified person. Who is a qualified individual?

A qualified individual is an individual (1) who is diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention (CDC), (2) whose spouse or dependent is diagnosed with such virus or disease by such a test, or (3) who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of child care due to such virus or disease, 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 the Treasury.

Penalty-free distributions are limited to \$100,000, and may, subject to guidelines, be re-contributed to the plan or IRA. In the case of any coronavirus-related distribution, unless the taxpayer elects not to, any amount required to be included in gross income for such tax year will be so included ratably over the 3-taxyear period beginning with such tax year. Further, at any time during the 3-year period beginning on the day after the date on which such distribution was received, individuals have three years to return the funds to their accounts. If the funds are returned / recontributed to a qualified account, the amount would be treated as an eligible rollover and would not be taxable.

Waiver of required distribution rules. Required minimum distributions that otherwise would have to be made in 2020 from defined contribution plans (such as 401(k) plans) and IRAs are waived. This includes distributions that would have been required by April 1, 2020, due to the account owner's having turned age 70 1/2 in 2019.

Charitable deduction liberalizations. The CARES Act makes four significant liberalizations to the rules governing charitable deductions:

(1) Individuals will be able to claim a \$300 above-the-line deduction for cash contributions made, generally, to public charities in 2020. This rule effectively allows a limited charitable deduction to taxpayers claiming the standard deduction.

(2) The limitation on charitable deductions for individuals that is generally 60% of modified adjusted gross income (the contribution base) doesn't apply to cash contributions made, generally, to public charities in 2020 (qualifying contributions). Instead, an individual's qualifying contributions, reduced by other contributions, can be as much as 100% of the contribution base. No connection between the contributions and COVID-19 activities is required.

(3) Similarly, the limitation on charitable deductions for corporations that is generally 10% of (modified) taxable income doesn't apply to qualifying contributions made in 2020. Instead, a corporation's qualifying contributions, reduced by other contributions, can be as much as 25% of (modified) taxable income. No connection between the contributions and COVID-19 activities is required.

(4) For contributions of food inventory made in 2020, the deduction limitation increases from 15% to 25% of taxable income for C corporations and, for other taxpayers, from 15% to 25% of the net aggregate income from all businesses from which the contributions were made.

Exclusion for employer payments of student loans. An employee currently may exclude \$5,250 from income for benefits from an employer-sponsored educational assistance program. The CARES Act expands the definition of expenses qualifying for the exclusion to include employer payments of student loan debt made before January 1, 2021.

Break for remote care services provided by high deductible health plans. For plan years beginning before 2021, the CARES Act allows high deductible health plans to pay for expenses for tele-health and other remote services without regard to the deductible amount for the plan.

Break for nonprescription medical products. For amounts paid after December 31, 2019, the CARES Act allows amounts paid from Health Savings Accounts and Archer Medical Savings Accounts to be treated as paid for medical care even if they aren't paid under a prescription. For reimbursements after December 31, 2019, the same rules apply to Flexible Spending Arrangements and Health Reimbursement Arrangements.

Temporary prohibition of foreclosures and evictions: The act will help those struggling with housing costs by prohibiting foreclosures on all federally backed mortgages for 60 days and allowing homeowners to request up to 180 days of forbearance. For renters, the act includes a 120-day moratorium on evictions for certain rental properties.

Stay safe & best regards,

Mark Perry, CPA

Principal