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Breaking Down the CARES Act

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief and Economic Security Act (CARES). This Act should help individuals, families, businesses and nonprofits weather the current health and economic environment.

Below is a high-level overview of some of the key provisions. Please contact a Cerity Partners advisor to get more details about the CARES Act and to discuss how it may affect your unique situation.

Individuals and Families

Many individuals and families are facing financial challenges caused by the virus and mobility restrictions, which is also having ripple effects on nonprofit organizations. The following provisions will hopefully provide some financial relief for all parties.

- **Recovery Rebates.** These payments are arguably the most anticipated and talked about provision in the Act. Individuals who earn $75,000 or less ($150,000 for married filing jointly (MFJ)) will receive $1,200 ($2,400 MFJ). If you earn more than this amount, your payment will be reduced by 5% of your adjusted gross income in excess of $75,000 ($150,000 (MFJ)). If you earn more than $99,000 ($198,000 MFJ), you're not eligible for the rebate. It also doesn't apply to dependents, trusts and estates.

  If you're receiving Social Security payments, you will likely still receive the rebate if you meet the income limits described above. Also, if you have a qualifying child under age 17, you may be eligible for an additional $500 credit.

- **Expanded Unemployment Benefits.** If you're a gig worker, freelancer, or independent contractor, you may qualify for the new temporary Pandemic Unemployment Assistance Program. Contact your state's unemployment office to find out the filing process. For other unemployed workers, the Act has increased the benefit period by 13 weeks and boosts payments by $600 for four months. The standard amounts and benefit periods vary by state, so you should also contact your state's unemployment office for details.

- **Charitable Contributions.** To encourage charitable giving, the Act increases the ability for you to receive a deduction for your cash gifts. Beginning this year, you can deduct $300 of qualified cash charitable contributions even if you use the standard deduction instead of itemizing. Additionally, the deductibility limitations based on adjusted gross income for qualified cash charitable contributions are suspended. As such, you may be able to deduct the full amount up to your adjusted gross income.

Employer-Sponsored Retirement Plans

The Act eases distribution and loan rules for participants due to COVID-19. Plan sponsors will likely have until the last day of the first plan year beginning on or after January 1, 2022 (January 1, 2024 for governmental plans) to amend their documents for these new rules. The IRS and Department of Labor are expected to provide more guidance in the coming weeks and months. In the meantime, you should contact your recordkeeper to find out when they'll be able to administer these potential changes to your plan(s).

- **Required Minimum Distributions.** Required minimum distributions (RMDs) are waived for 2020 for all defined contribution plans and IRAs, including any 2019 initial required minimum distributions that were due by April 1, 2020. The Act doesn't address RMDs from defined benefit plans.

- **Coronavirus-Related Distributions.** Qualified individuals can take coronavirus-related distributions up to $100,000 in 2020. While this distribution is generally taxable, the 20% federal withholding and 10% early distribution penalty don't apply. Plus, if participants repay the distribution to the plan within three years, it will be treated like a tax-free rollover.

- **Loans.** For the next 180 days, the new limit for plan loans is the lesser of 100% of a participant's vested account balance or $100,000. Additionally, any loan repayments due by December 31, 2020 are automatically delayed for one year. Subsequent repayments will be adjusted accordingly.

The Act also allows employers to delay all 2020 defined benefit funding obligations until January 1, 2021. Accrued interest will be added to any delayed payments. It's also possible, if not probable, the Department of Labor may postpone deadlines for Form 5500 filing, annual funding notices, and other compliance-related items.

Businesses and Organizations

Several provisions in the Act should help businesses impacted by the mandated social distancing and their employees. Helping businesses survive should allow for a much smoother return to a fully functioning economy once mobility restrictions are eased.

- **Employee Retention Credit.** If you had to partially or completely suspend your operations due to COVID-19 or experienced a more than 50% drop in gross receipts compared to Q1 2019, you may receive a refundable payroll tax credit. The credit is equal to 50% of the first $10,000 of eligible wages you pay to an employee between March 12, 2020 and December 31, 2020. The definition of eligible wages depends on whether your organization has more or less than 100 employees.

- **Delay of Employer Payroll Taxes.** From now until December 31, 2020, you don't have to deposit the employer share of FICA taxes (6.2%). The first half of the deferred amount must be deposited by December 31, 2021 and the second half by December 31, 2022. This deferral does not apply to the employer's share of the hospital insurance tax (1.45%) and the employees' share of payroll taxes withheld. Note: Businesses with loan forgiveness under the CARES Act cannot take advantage of this provision.

- **Prior Year Minimum Tax.** The Act eliminates the calculation used for alternative minimum tax (AMT) refund credit carryovers. As a result, your business may be able to claim the full refund credit on its 2018 and 2019 tax returns.

- **Deductibility of Business Interest.** The amount of deductible business interest is 50% (up from 30%) of your business' adjusted taxable income for 2019 and 2020. For 2020, you can use your adjustable taxable income at the start of 2019 to determine the deduction for this year. Additionally, you can opt out of this increase for any tax year, if you make the election by the designated IRS deadline. Note: Special rules apply for partners and partnerships.

- **Bonus Depreciation on Qualified Improvement Property.** The Act remedies an error in the Tax Cuts and Jobs Act, allowing a 100% write-off of qualified improvement property by using the bonus depreciation provisions. This amendment is retroactive to property placed in service after December 31, 2017. As such, you may be able to receive refunds by amending your 2017, 2018, or 2019 tax returns to deduct the cost of qualified improvement property.

- **Net Operating Loss Rules.** Under the Act, corporations can carry back net operating losses (NOL) incurred in 2018 through 2020 for five years. The 80% taxable income limit has also been temporarily removed, which means corporations can fully use any NOL to offset business income. There's also relief for non-corporate entities such as sole proprietorships and pass-through entities. The Act eliminates the limitation on excess business losses for these types of businesses, allowing them to carry back larger NOLs.

- **Small Business Loans.** If you're a small business owner or nonprofit organization, you may be eligible for a low-interest working capital loan from the Small Business Administration Economic Injury Disaster Loan Program. Additionally, the CARES Act has created the Paycheck Protection Program that allows eligible small business owners to borrow money to help keep their employees employed. How much they can borrow depends in part on their payroll costs, and the loan can potentially be forgiven, subject to specific guidelines.

- **Charitable Contributions.** To encourage charitable giving, the Act temporarily increases the deduction for qualifying cash charitable contributions to 25% of a business' taxable income, up from 10%. This increase applies for 2020.

We're Here to Help.

We recognize that these changes are a lot to absorb, especially in light of everything else that is going on. We're here to help you make sense of the CARES Act and to help put the proper plan in place for your goals and circumstances. We're also closely monitoring for any additional guidance and will keep you apprised of any developments. As we stated earlier, please don't hesitate to contact Cerity Partners if you have any questions or concerns.