RAYMOND JAMES

The CARES Act: Individuals

Within the 2020 Coronavirus Aid, Relief and Economic Security (CARES) Act stimulus bill, many provisions were allocated to support individuals.

OVERVIEW

Passed on March 27, 2020, the CARES Act provided an estimated $2 trillion in fiscal stimulus to combat the economic impact of COVID-19, and provided the healthcare industry the financial support, equipment and protection it needed to combat the virus.

As the COVID-19 pandemic affected life in ways we could not have imagined, the deadly virus and efforts to contain the spread prompted a significant government response. The legislation was intended to combat the economic risks associated with a slowdown in individual spending, and help businesses of all sizes avoid closures and employee layoffs. It also provided necessary funds to help support states and municipalities.

This document highlights the major provisions aimed at providing relief to individuals affected by the coronavirus.

RECOVERY REBATES FOR INDIVIDUALS

The act provided payments to taxpayers (subject to income limits) in the way of a credit of $1,200 per individual and $2,400 per married couple filing jointly. There was also a $500 credit per qualifying child under the age of 17. The payment was reduced by 5% of the individual's adjusted gross income over $75,000 ($112,500 for head of household; $150,000 for joint filers). The payment fully phases out when income reaches $99,000 for single filers, $146,500 for head of households with one child and $198,000 for joint filers. Individuals with no income, as well as those with income from non-taxable sources, also qualified for the advance payment. The eligibility for the payment was based on the taxpayer's 2019 tax return. If the return had not filed, eligibility was based off of the 2018 tax return. For most Americans, the credit arrived in April 2020 through direct deposit, while others received a check in the mail.

IMPORTANT TOPICS

- Recovery rebates for individuals
- Retirement plans, distributions and contributions
- Expansion of unemployment insurance benefits
- Expansion of health coverage
- Homeowners and renters
- Relief for student loan borrowers

RETIREMENT PLANS, DISTRIBUTIONS AND CONTRIBUTIONS

PENALTY-FREE DISTRIBUTIONS FROM RETIREMENT ACCOUNTS

A coronavirus-related distribution of up to $100,000 could be made from IRAs, employer-sponsored retirement plans or a mix of both by an individual impacted by the coronavirus. A coronavirus-related distribution was one made to anyone who:

- Was diagnosed, or whose spouse or dependent was diagnosed, with COVID-19 by a test approved by the Centers for Disease Control and Prevention; or
- Experienced adverse financial consequences – or had a spouse, or another member of their primary residence who was experiencing these consequences – due to COVID-19 causing them to:
  - be quarantined, furloughed or laid off, or have work hours reduced;
  - be unable to work due to lack of childcare;
  - close or reduce the hours of a business that they own or operate;
  - have reduced pay or self-employment income; or
  - have a job offer rescinded or start date for a job delayed.

While withdrawals from retirement plans likely had a negative impact on retirement plans, such withdrawals for individuals under age 59 1/2 avoided the 10% federal premature distribution penalty tax. The distribution was still taxed as ordinary income.

A taxpayer can elect to include all of the income from a coronavirus-related distribution in their 2020 income or spread the income over three years (2020, 2021 and 2022).

In addition, the affected individual has up to three years after the day of the distribution to roll over all or a portion of the amount back into the retirement account. The rollover can be made as a single or multiple repayment over that three-year period. In instances where taxes have been paid on a withdrawal, the individual should consider filing an amended tax return.

LOANS FROM QUALIFIED PLANS

While the CARES Act expanded the loan provisions for employer-sponsored plans, they were not mandatory and it was up to each plan sponsor to modify their plan documents in order to increase these limits.

Also, a participant did not need to exhaust loan options first in order to obtain a hardship loan. The COVID-19 distribution was not a hardship distribution – it was a new distributable event.

TEMPORARY WAIVER OF REQUIRED MINIMUM DISTRIBUTIONS (RMDS)

Required minimum distributions (RMDs) for qualified account holders were waived for 2020. RMDs for inherited or beneficiary- qualified account holders were also waived for 2020. If an individual had a required beginning date (RBD) in 2019 and delayed it until 2020, they could waive both of the RMDs for the year.

In addition, the IRS released Notice 2020-51 on June 23, which extended the 60-day rollover period for any previously distributed RMD payments – as well as certain other distributions – to August 31, 2020.

The notice also permitted rollovers of waived RMDs and certain related payments to August 31, 2020.

These repayments were not subject to the one rollover per 12-month period limitation. Beneficiary IRA owners also had until August 31, 2020, to roll over any 2020 beneficiary RMDs that they had already taken.

This notice did not affect non-RMD related distributions. Additionally, while RMDs were waived for 2020, charitably inclined individuals over the age of 70 1/2 were still eligible to take qualified charitable distributions (QCDs).

CHARITABLE CONTRIBUTIONS

For 2020, cash charitable contributions could be deducted up to 100% of adjusted gross income (AGI). Previously, a taxpayer could only deduct up to 60% of AGI for cash contributions (increased in 2018 from 50% of AGI due to the 2017 Tax Cuts and Jobs Act). Excess charitable contributions can still be carried over five years.

The act also provided for a new above-the-line deduction for taxpayers who could not itemize deductions on their federal tax return called qualified charitable contributions. The maximum amount was $300. Contributions had to be made in cash and were prohibited from being made to donor advised funds or 509(A) (3) supporting charities (the supporting organization was a charity that carried out its exempt purposes by supporting other exempt organizations, usually other public charities). The act states this starts in 2020 but does not provide any ending year.

MINIMUM CONTRIBUTIONS TO SINGLE-EMPLOYER PENSION PLANS ARE DELAYED

Sponsors were able to delay 2020 required contributions to pension plans until January 1, 2021. Contributions would be due with interest accrued at the plan's effective rate.

Single employer defined benefit pension plan minimum required contributions due during 2020 could be delayed to January 1, 2021 (adjusted for interim earnings). This provision also provided an option to use an alternative funding target percentage.

EXPANSION OF UNEMPLOYMENT INSURANCE BENEFITS

Unemployment insurance benefits are governed by each state and funded by federal and state coffers, as well as private companies that pay employment tax. Each state determines the benefit maximum and duration of benefits for recipients that qualify. The CARES Act provided multiple unemployment protections above and beyond what each state provides.

Anyone who couldn't work because of coronavirus could receive benefits. This included those who were furloughed, laid off, became ill or had to care for someone else afflicted with the virus. Furthermore, the act extended benefits to the self-employed and independent contractors, a group that doesn't normally qualify for unemployment. When applying for benefits, most states had a one-week elimination period for unemployment benefits. Under the CARES Act, the federal government reimbursed all states that waived this one-week elimination period. Furthermore, the federal government funded an additional $600 stacked on top of recipients' weekly state benefit. The act also extended the length of time an individual may receive benefits for an additional 13 weeks on top of the state maximum.

EXPANSION OF HEALTH COVERAGE

The act provided that over-the-counter (OTC) medications and menstrual care products would be considered qualified medical expenses for medical savings accounts such as health savings accounts (HSAs), Archer medical savings accounts (MSAs) and flexible spending accounts (FSAs). In the past, OTC medicines required a prescription to be an eligible expense.

HSAs will now cover telehealth and remote care services pre-deductible for plan years that begin on or before December 31, 2021. Generally, HSAs would only cover preventive care before the deductible is met but cannot pay for non-preventive services until the deductible has been met.

Additionally, COVID-19 vaccines are free to those on Medicare. Medicare Part D recipients were given the ability to have a 90-day supply of medication prescribed and filled during the COVID-19 emergency period.

HOMEOWNERS AND RENTERS

FORBEARANCE OF MORTGAGE PAYMENTS

If your mortgage was backed by the federal government, this provision allowed you to suspend payments for up to 12 months (initial 180 days with an option to extend an additional 180 days). You had to affirm that you were experiencing hardships during the COVID-19 pandemic. No further documentation was required, and you could halt the forbearance at any time.

During any forbearance period, you may not be charged penalties, interests or fees that would not have been charged if you had made your payments on time and in full. Additionally, you will not be reported to credit bureaus for late or missed payments provided you are in a forbearance program. Be sure to understand the terms of the forbearance (i.e., 3-month balloon payment due at the end of the forbearance period) and understand how it may impact escrow accounts. Make sure to get the details in writing.

With the exception of vacant properties, the servicer of a mortgage could not initiate a foreclosure, move for a foreclosure or order of sale, or execute a foreclosure sale in the 60 days following March 18, 2020.

TENANT PROTECTION

The CARES Act provided important protections for tenants during the coronavirus outbreak. It placed a federal moratorium on eviction of tenants for non-payment of rent while also prohibiting landlords from charging fees, penalties or other charges to the tenant related to nonpayment of rent. Furthermore, landlords could not evict a tenant after the moratorium expired except on 30-day notice. The moratorium on evictions went into effect on March 27, 2020, and lasted for 120 days. The federal moratorium pertained to "covered dwellings" or rental properties that receive any federal assistance, which included:

- Dwellings that participate in the Covered Housing Program of the Violence Against Women Act.
- Dwellings that participate in the Rural Housing Voucher Program.
- Dwellings that have a federally backed mortgage loan.
- Dwellings that have a federally backed multi-family mortgage loan.

Landlords know or have access to whether their properties fall under one of these categories.

Many states and municipalities also imposed their own restrictions. If those moratoria were less strict, the federal moratorium applied.

RELIEF FOR STUDENT LOAN BORROWERS

There were a lot of provisions for individuals affected by COVID-19, including financial aid repayments, work study grants, temporary relief for student loan borrowers, exclusions of federal direct loans and Pell Grants for student who could not complete the semester due to qualifying emergency, and modification of institutional grants.

Required payments on federal student loans were suspended through September 30, 2020. During that time, no interest could accrue on this debt. Note while required payments were suspended, voluntary payments were not prohibited. Unfortunately, that meant automatic payments continued unless individuals took proactive measures to contact their loan provider and pause payments.

The Department of Education set federal student loan interest rates at 0% for a 60-day period beginning March 20, 2020. Those who would continue to pay student debt were able to take advantage of the 0% rate.

RAYMOND JAMES®

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM