Miller Cooper & Co., Ltd

COVID-19 Response:

CARES Act Rebates and Other Individual Provisions

2020 Recovery Rebates for Individuals Rebate checks will be issued to those with valid social security numbers, based on 2019 tax return, 2018 tax return, or Social Security statement, in the amounts of $1,200 per individual ($2,400 married filing jointly), plus $500 per child under age 17.

The payments will be phased out at $5 for every $100 that AGI is over the applicable threshold:

- If single with no kids, the payment begins to phase out at AGI of $75,000, and will completely phase out once AGI exceeds $99,000 (($99,000 - $75,000) * 5% = $1,200).
- If married with no kids, the payment begins to phase out at AGI of $150,000, and will completely phase out once AGI exceeds $198,000 (($198,000 - $150,000) * 5% = $2,400).
- For single or married with kids, the phase-out thresholds will be higher. For example, married with two children would not lose out on all of their $3,400 until AGI exceeded $218,000 (($218,000 - $150,000) * 5% = $3,400).
- For head of household, the income threshold is $112,500, and the total phase-out would depend on how many children.

The payments will be made between now and December 31, 2020, and will be paid electronically if direct deposit information was provided on 2018 or 2019 tax returns.

Any payments received are considered advance payments of a credit that will be computed on 2020 income tax returns, and could potentially result in an additional credit on the 2020 income tax return. There is no explicit language in the CARES Act that speaks to income recognition in the case that the amount calculated using 2020 information would result in a lesser amount.

Special Rules for use of Retirement Funds Qualified retirement plan distributions prior to age 59 ½ would qualify for an exception to the 10% penalty for individuals taking a "coronavirus-related distribution" of up to $100,000. A "coronavirus-related distribution" is a distribution made during 2020:

To an individual who is diagnosed with SARS-COV-2 or COVID-19 by a test approved by the CDC,

- Whose spouse or dependent is diagnosed by such a test with one of the two diseases, or
- Who experiences adverse financial consequences as a result of being quarantined, furloughed, or laid off or having work hours reduced, or 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 such factors as determined by the Secretary of the Treasury.

The distribution would still be subject to income tax. The CARES act allows the taxpayer to include the income ratably over a three-year period beginning with 2020. The taxpayer may also repay the distribution to the retirement plan within three years of receiving it in order to avoid any income recognition.

The amount that a taxpayer can borrow from his or her retirement plan is increased from $50,000 to $100,000 for 180 days after the enactment of this Act. Individuals with an outstanding plan loan with a repayment due between the enactment of this Act and December 31, 2020 can delay their loan repayment for up to one year.

TEMPORARY WAIVER OF REQUIRED MINIMUM DISTRIBUTION RULES FOR CERTAIN RETIREMENT PLANS AND ACCOUNTS For taxpayers who have "Required Minimum Distributions" from their retirement plans in 2020, the CARES Act temporarily waives the requirement for 2020 only.

ALLOWANCE OF PARTIAL ABOVE THE LINE DEDUCTION FOR CHARITABLE CONTRIBUTIONS
For taxable years beginning in 2020, the CARES Act allows a taxpayer to make a cash contribution of up to $300 to a qualifying charity (public charity) and to deduct the contribution as an above-the-line deduction to arrive at adjusted gross income. This deduction is available for 2020 and beyond, but is *only available to taxpayers who do not itemize deductions.*

MODIFICATION OF LIMITATIONS ON CHARITABLE CONTRIBUTIONS DURING 2020 For those who itemize, the new law temporarily lifts the limits on charitable giving for 2020. The CARES Act allows cash contributions to public charities (up to 60% for 2019) to be deducted up to 100% of AGI for 2020. Any excess contributions can be carried over for five years.

For corporate donors, the limit is increased from 10% of adjusted taxable income to 25%.

The tax deduction for the contribution of food inventory during 2020 is limited to 25% (up from 15%) of the aggregate net income for the year from the trade or business from which the contributions were made.

EXCLUSION FOR CERTAIN EMPLOYER PAYMENTS OF STUDENT LOANS As part of the CARES Act, an employer can pay up to $5,250 in 2020 of an employee's student loan obligation on a tax-free basis. This provision modifies existing law, which permits an employer to pay up to $5,250 of an employee's qualified education expenses (i.e. Masters in Taxation), with the payment being tax-free to the employee.

This is now a *combined limit*, so an employer can make payments towards an employee's Master degree, and for the employee's student loan payments in 2020, but the maximum amount that is tax-free to the employee is $5,250.

If an employee's student loan is paid on a tax-free basis under this provision by his or her employer, the employee is not entitled to the student loan interest deduction.

March 28, 2020