# How the CARES Act Can Provide New Planning Opportunities

**The corona pandemic has certainly caused disruption. This has prompted the federal government to provide unprecedented action that may impact you.**

**In this article, we will provide some information regarding a recent IRS action and select provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.**

### IRS Notice 2020-18

April 15 will not be a day of infamy for those owing federal income tax this year. The tax-filing date has been officially delayed until July 15 for those individuals and entities who are required to file returns and pay their tax liability by April 15. Those on valid extension will still need to finalize their returns and make payments by October 15.

- **Retirement Planning.** The Notice clarified that IRA contributions for tax year 2019 can also be made until July 15, 2020. This will allow those who receive CARES Act rebates and do not currently need these additional monies to contribute them to a traditional or Roth IRA, if eligible. Recall the SECURE Act removed the 70 ½ maximum contribution age for individuals with earned income up to or exceeding the amount to be contributed to their IRA.

### Waiver of RMD Rules

As most of us well know, experiencing a negative sequence of returns in the early years of retirement can have very profound and asymmetrically negative consequences on future retirement income. Simply put, it's hard to stay the course and allow your investments to recover if you need to remove the investment from the retirement account.

The act suspends all RMDs owners and beneficiaries may have due in 2020. It also allows an RMD that was paid to an owner to be rolled-back into the IRA or plan, subject to existing rollover rules. Unfortunately, beneficiaries do not have an indirect rollover option as only direct transfers can be made. Interestingly, IRA or plan beneficiaries currently in a five-year payout will have an additional year (out-in-six) as 2020 no longer counts as an RMD year.

- **Tax Planning.** Affluent clients may not need to take RMDs and often look for ways to minimize them. By suspending the RMD requirement for 2020, these clients will have additional flexibility to include considering a Roth conversion,* of what may have been an RMD, to enhance estate and legacy planning.

### Direct Payment to Taxpayers.

Perhaps the best known and most popular provision of the CARES Act to aid workers and families is the direct payment provision. All U.S. residents with adjusted gross income ("AGI") up to $75,000 ($150,000 married), who are not a dependent of another taxpayer and have a work eligible social security number are eligible for the full $1,200 ($2,400 married) rebate. In addition, they are eligible for an additional $500 per child under age 17. This is true even for those who have no income as well as those whose income is derived entirely from non-taxable means-tested benefit programs, such as SSI benefits.

| Single | Head of Household | Married |
|---|---|---|
| $75,000 | $112,500 | $150,000 |
| *All tax credits phase lower by $5 for every $100 of AGI above the initial threshold* | | |

- **Tax Planning**. These rebates are considered advance tax credits against the filer's 2020 tax return and are therefore not taxable. They can also be offset by other tax credits a taxpayer may claim. The advance check amount looks back to any return filed in 2019 or 2018 if the individual(s) did not file a return in 2019.

Importantly, the actual credit will use the AGI for tax year 2020 when the tax return is filed. Thus, individuals whose AGIs may be substantially lower this year due to the economic disruption may get a larger actual tax credit. However, the inverse is true, if the actual 2020 AGI is higher than 2019, taxes may be due on the overpaid advance.

- **Retirement Planning**. As commented on above, for those clients who have not yet filed their tax return due on July 15, these monies can provide available funds to be contributed for tax year 2019 to an IRA, Roth IRA or, more generally, to any other investment vehicle for those who are fortunate to not need these funds currently. A Roth may be particularly attractive for individuals who cannot make a deductible IRA contribution and for the very favorable ordering rules that allow contributions to be withdrawn before earnings if the client needs these monies before 59½.

## Accessing Retirement Funds

As with other disaster-related relief programs, the 10-percent early withdrawal penalty for distributions up to $100,000 from IRAs and qualified retirement accounts is waived for premature distributions made in 2020. These distributions will not need to satisfy the rules that require 20% withholding nor in-service distribution requirements of employer plans.

To qualify for this exception, the taxpayer must meet one of the following requirements:

- The taxpayer, spouse, or dependent must have been diagnosed with COVID-19
- The taxpayer experienced adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced
- The taxpayer closed or reduced hours of a business he or she owned or operated
- The taxpayer was unable to work from lack of child care due to the virus

- **Retirement Planning.** Taking a hardship distribution from an employer plan can be complex as the plan administrator is required to police the reason for the hardship and contributions to the plan via salary deferrals may be suspended. By contrast, a distribution from an IRA will be at the election of the taxpayer and may be a little easier. However, care should be taken to review potential sales charges, market value adjustments etc. to guide your client to withdraw monies that have the greatest liquidity.

Tapping retirement accounts should be viewed as a last resort because removing these funds from the markets or spending them currently can have a compounding negative effect on future retirement income. Nevertheless, retirement funds may be the single, largest source of liquidity for those in an emergency. The ability to recontribute these funds with pre-tax dollars may provide an opportunity to mitigate this for those who can afford to do so should their future finances improve.

## Conclusion

All of us at 1879 Advisors remain steadfast in our desire to help you. We look forward to answering your questions in these uncertain times. Let us know how we can help you.

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