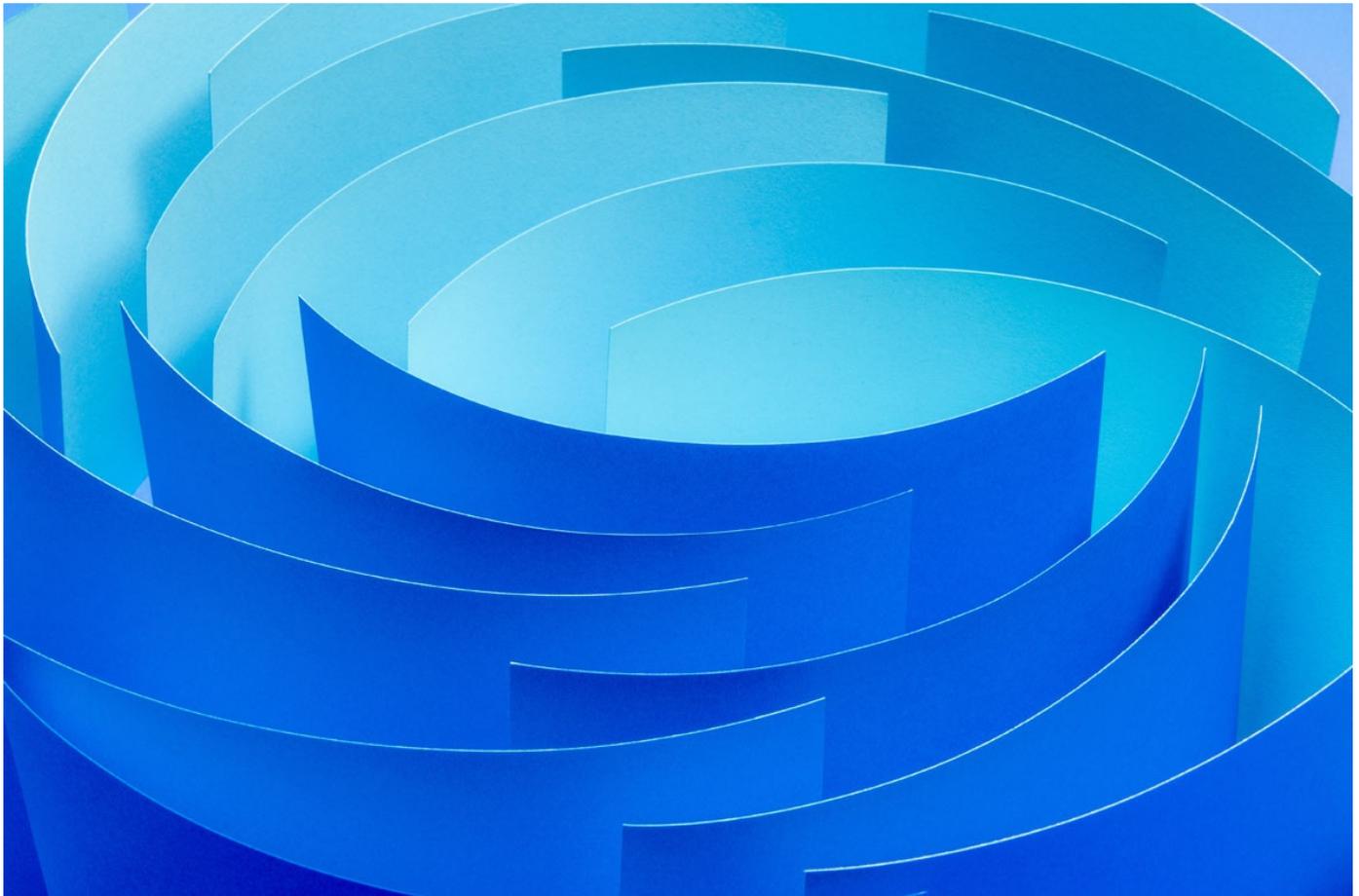

How the CARES Act Will Impact Taxes

 westwoodgroup.com/insight/how-the-cares-act-will-impact-taxes/



The Coronavirus Aid, Relief, and Economic Security (CARES) Act rapidly passed both houses of Congress and was signed by the President on March 27, 2020. The CARES Act provides over \$2 trillion of emergency fiscal stimulus in the form of loans and outright rebate payments to individuals and businesses, along with state and local governments, to ease the immediate effects of the economic shutdown.

Recovery Rebate

For most individuals and families needing immediate assistance, the CARES Act provides for a direct payment in the form of refundable income tax credit, also called a Recovery Rebate, against their respective 2020 income. However, in order to quickly advance the rebates to individuals and families, the initial payments will be based upon the taxpayer's most recent tax filing; which in many cases would be the 2018 or 2019 federal income tax return.

The maximum credit available is up to **\$1,200 for per adult** and **\$500 per child**, under the age of 17, and will be subject to reductions for incomes that exceed the adjusted gross income threshold of \$150,000 for married filing jointly, \$75,000 single, and \$112,500 head of household. Generally, individuals who are not subject to tax filings but have a Social Security number should be eligible to receive a rebate payment. However, these individuals cannot be claimed as a dependent, which unfortunately may exclude many college students.

For taxpayers that exceed the threshold amount, Recovery Rebate will be reduced by \$5 for every \$100 over the threshold amount. The Recovery Rebate will remain available to taxpayers on their 2020 tax returns, if the initial refund payments were subject to a reduction or eliminated based upon a previous year's income thresholds.

Recovery Rebate payments are automatic with the expectation that United States Treasury payments began at the end of April. Refund payments will be directed either to the bank account on file with the IRS or, if no bank account information is available, then by check to the last known address on record of the taxpayer. Approximately 15 days after the rebate payment, the IRS will mail a notice to the last known address indicating the method of payment, the amount of payment, and phone number to report any failure to receive the payment to the IRS.

Additional Relief

Additional relief created by the CARES Act includes the opportunity for individuals impacted by COVID-19 to distribute up to \$100,000 from an IRA account or employer-sponsored retirement plan during the tax year 2020. Benefits of these distributions include:

- Waiver of the 10% penalty for early withdrawals, for individuals under the age of 59½
- No mandatory income tax withholdings of 20% from employer retirement plans
- Distributions from the retirement plan can be redeposited within a three-year period

- Income taxes attributed to any and all IRA or retirement plan distributions during the year will automatically be spread over a three-year period, unless opted out by the taxpayer

The U.S. Treasury definition for impacted individuals is broad in nature and includes any person or family member being diagnosed with COVID-19 or any individual who suffers related adverse financial consequences, or suffers from other factors as a result of the virus or other factors as determined by the Secretary of the Treasury.

Retirement Plans

For employees with a company-sponsored retirement plan, such as a 401(k) or 403(b), the CARES Act enhanced the loan provision rules for all retirement plans, if available, until Sept. 23, 2020 by:

- Increasing the maximum loan limit to \$100,000 from \$50,000
- Allowing 100% of the vested balance to be used for a loan, up to the loan limit amount
- Allow for the delay in the loan repayments up to one year and extending the loan term by one year

Required Minimum Distributions are waived for most retirement plans including 401(k), 457(b), 403(b) and IRA account owners as well as beneficiaries for 2020.

Charitable Deductions

The CARES Act also liberalized the rules governing charitable deductions. Taxpayers making a cash donation of up to \$300, to a qualified charity, will not be subject to the itemized deductions limit, but instead the deduction will be added to the standard deduction. Individuals with larger charitable contributions, that were previously subject to lower percentage limitations, have been temporarily modified from 60% to 100% of adjusted gross income with excess amounts being carried over for the next five years. It should also be noted that neither of these gifts may be contributed to a donor-advised fund.

Student Loan Payments

Federal Student Loan payments can be deferred until Sept. 30, 2020. During this time, no interest will accrue on the debt. While required loan payments are suspended, proactive measures must be taken by the borrower to contact the loan provider to pause payments. Unfortunately, deferred loan payments are not available to private student debt.

Already made an IRA withdrawal for 2020?

- A planning tip: If an IRA or retirement plan distribution has already been withdrawn during 2020 and the owner or the beneficiary desires to redeposit these funds, then funds distributed within 60 days of the withdrawal date can be returned to the account utilizing the 60-day rollover window assuming no other rollovers have occurred within the past 12 months.
- If the 60-day rollover window has passed and the retirement plan owner, or a family member, has been affected by COVID-19, as previously noted, then a return of funds could be allowable.
- The IRS has not announced a waiver of distributed funds in excess of the 60-day rollover window, but further guidance is expected.
- For distributions not within the 60-day rollover window, consideration should be given to converting the distributed fund, or possibly additional funds, to a Roth IRA.

We hope that you are keeping yourself and your loved ones safe during this virus outbreak. We suggest discussing any tax matters with your CPA due to the complexity of the CARES Act. Please contact us if you have any questions or would like more information about the CARES Act.

The information contained herein represents the views of Westwood Holdings Group, Inc. at a specific point in time and is based on information believed to be reliable. No representation or warranty is made concerning the accuracy or completeness of any data compiled herein. Any statements non-factual in nature constitute only current opinion, which is subject to change. Any statements concerning financial market trends are based on current market conditions, which will fluctuate. Past performance is not indicative of future results. All information provided herein is for informational purposes only and is not intended to be, and should not be interpreted as, an offer, solicitation, or recommendation to buy or sell or otherwise invest in any of the securities/sectors/countries that may be mentioned.

The information contained herein represents the views of Westwood Holdings Group, Inc. at a specific point in time and is based on information believed to be reliable. No representation or warranty is made concerning the accuracy or completeness of any data compiled herein. Any statements non-factual in nature constitute only current opinion, which is subject to change. Any statements concerning financial market trends are based on current market conditions, which will fluctuate. Past performance is not indicative of future results. All information provided herein is for informational purposes only and is not intended to be, and should not be interpreted as, an offer, solicitation, or recommendation to buy or sell or otherwise invest in any of the securities/sectors/countries that may be mentioned.