

Understanding the CARES Act

On March 27, 2020, President Trump signed into law a massive stimulus bill, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The legislation, with a projected cost of \$2.2 trillion, is the third bill, or Phase 3, in response to the COVID-19 pandemic and includes a range of provisions to provide relief to affected individuals and businesses. Below is a list of the provisions most applicable to those who partner with BigLife.

Here are the big three: 1) relief for individuals, 2) charitable contribution deductions, and 3) small business/nonprofit loans.

01 Relief for Individuals

+ Cash rebates for households

- Eligible taxpayers will receive up to \$1,200 (\$2,400 for married filing jointly) and \$500 for each qualifying child.
- The full rebate amount will go to individuals with an adjusted gross income (AGI) of less than \$75,000 (\$150,000 for married filing jointly). The amount gradually decreases for individuals with a higher AGI up to \$99,000 (\$198,000 for married filing jointly), when it phases out entirely.
- The payments are expected to be made via direct deposit if possible, otherwise by check.
- The IRS will generally calculate rebate amounts using 2019 or 2018 federal tax returns.

+ Waiver of required minimum distributions

- Required minimum distributions from retirement accounts such as 401(k)s and IRAs are waived for calendar year 2020.

+ Tax-favored withdrawals from retirement plans for coronavirus-related expenses

- This provision allows those under age 59 ½ to withdraw up to \$100,000 from their plan without the 10% early withdrawal penalty.
- The withdrawn amounts may be repaid to the plan or IRA within 3 years as a tax-free rollover. If not repaid in 3 years, the withdrawn amount would be taxable income.
- Withdrawals qualify only if an individual, their spouse, or dependent is diagnosed with COVID-19, or if they have experienced coronavirus-related financial hardship.

+ Loans from qualified retirement plans for coronavirus-related expenses

- Individuals can borrow up to \$100,000 (up from the usual \$50,000 limit) from qualified plans for a 180-day period, with repayment deadlines delayed by 1 year.

02 Charitable Contribution Deductions

+ "Universal" charitable deduction of \$300

- Starting in 2020, all taxpayers can deduct up to \$300 of charitable contributions.
- The contribution must be in cash and cannot be to a donor advised fund or to certain supporting organizations or private foundations.

+ Increased charitable deduction limit

- For 2020 only, tax itemizers can deduct charitable contributions up to 100% of AGI, though with the same limitations—cash contributions, not to donor advised funds, etc.
- Partners of partnerships and shareholders of S-corporations can also deduct up to 100% of AGI, on an individual basis.

+ Business charitable contributions

- For 2020 only, corporations can deduct up to 25% of taxable income (up from 10%) for charitable contributions to a public charity, though with the same limitations—cash contributions, not to donor advised funds, etc.
- Corporations can also deduct up to 25% of taxable income for contributions of food inventory (up from 15%).

03 Small Business and Nonprofit Loans

+ Loans

- Small businesses (500 or fewer employees, for profit and not-for-profit) are eligible to receive government-guaranteed loans through the Small Business Administration.
- The funds, capped at \$10 million, must be used for payroll and certain administrative expenses: mortgage interest, rent, utility payments and some other uses.
- Borrowers can apply for loan forgiveness equal to the loan amount spent during an 8-week period for payroll costs, mortgage interest, rent and utilities.

+ Employee Retention Tax Credit

- Employers may be eligible for up to \$5,000 refundable payroll tax credit per employee on qualified wages.
- The credit is for those that have been partially or fully shut down by the government due to COVID-19, or which have seen revenue drop 50% vs. year-ago quarterly revenue.
- Businesses that receive a loan under the new Paycheck Protection Program are not eligible for this credit.

+ Delay of payment of payroll taxes

- Employers (for profit and not-for-profit) and self-employed individuals can delay paying the employer portion of payroll taxes from March 27 to Dec. 31, 2020.
- The deferred taxes must be repaid over the next 2 years: 50% by the end of 2021 and 50% by the end of 2022.

+ Net operating losses modification

- Businesses can now carry back losses from 2018, 2019 and 2020 for 5 years, offsetting up to 100% of taxable income to reduce taxes owed.

+ Business interest expense limit increase

- For 2019 and 2020, businesses can deduct business interest up to 50% of taxable income (up from the usual 30%).

This information was provided by The Signatry. For more on the CARES Act and charitable giving strategies, visit www.thesignatry.com