

Coronavirus Aid, Relief, and Economic Security (CARES) Act Provisions for Individuals

Provided by Gary Albert, CPA

Individual Tax Relief

Recovery Rebates

The most well-publicized provision is the \$1,200 recovery rebates for individual taxpayers. The rebate amounts are advance refunds of credits against 2020 taxes, and equal to \$1,200 for individuals, or \$2,400 for joint filers, with a \$500 credit for each child. The amount of each rebate is phased out by \$5 for every \$100 in excess of a threshold amount. This threshold amount is based upon 2018 adjusted gross income (unless a 2019 return has already been filed), and the phaseout begins at \$75,000 for single filers, \$112,500 for heads of households, and \$150,000 for joint filers. Thus, the rebates are completely phased out for single filers with 2018 (or 2019, if applicable) adjusted gross income over \$99,000, heads of household with \$136,500 (or higher, depending upon whether status is established because of children), and joint filers with \$198,000.

In order to be eligible for a recovery rebate, the individual must not be: (1) a nonresident alien, (2) able to be claimed as a dependent on another taxpayer's return, (3) an estate or trust, and (4) must have included a Social Security number for both the taxpayer, the taxpayer's spouse, and eligible children (or an adoption taxpayer identification number, where appropriate). The Act includes additional rules for the application of the credit.

The Secretary of the Treasury is directed to provide the rebate as rapidly as possible.

Retirement Plans

The Act also waives the 10-percent penalty on early withdrawals up to \$100,000 from qualified retirement plans for coronavirus-related distributions. For purposes of the penalty waiver, a coronavirus-related distribution is one made during the 2020 calendar year, to an individual (or the spouse of an individual) diagnosed with COVID-19 with a CDC-approved test, or to an individual who experiences adverse financial consequences as a result of quarantine, business closure, layoff, or reduced hours due to the virus. Any income attributable to an early withdrawal is subject to tax over a three-year period, and taxpayers may recontribute the withdrawn amounts to a qualified retirement plan without regard to annual caps on contributions if made within three years.

COMMENT: *This relief is commonly granted by Congress in the wake of major disaster declarations, such as those made after a major hurricane.*

The Act also waives all required minimum distributions for 2020, regardless of whether the taxpayer has been impacted by the pandemic.

Charitable Contributions

The Act enhances tax incentives for making charitable contributions for the 2020 tax year. First, it allows an above-the-line deduction of up to \$300 for charitable contributions made by individuals.

IMPACT: *This allows an individual to claim a deduction for a charitable contribution, even if the individual does not itemize deductions.*

Additionally, the percent-of-adjusted gross income (AGI) limitations are increased for all taxpayers as well as for specific types of contributions. For the 2020 tax year, individuals can claim an

unlimited itemized deduction for a charitable contribution, which is normally limited to 50 percent of AGI. In the case of corporations, the usual 10-percent-of-AGI limitation is increased to 25 percent for the 2020 tax year. Finally, the contribution of food inventory, the deduction for which is normally limited to 15 percent of AGI, is increased to 25 percent for the 2020 tax year.

Student Loans Paid by Employers

The Act provides for an exclusion of up to \$5,250 from income for payments of an employee's education loans. In order for the exclusion to apply, the loan must have been incurred by the employee for the education of the employee (so, for example, the loan must not have been incurred to pay for the education of the employee's child). The payment can be made to the employee or directly to the lender. The exclusion only applies for payments made by an employer after the date of enactment and before January 1, 2021.

COMMENT: *The \$5,250 cap applies to both the new student loan repayment benefit as well as other educational assistance (e.g., tuition, fees, books) provided by the employee.*



Source: Gary Albert, CPA

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