
Key Tax Provisions of the CARES Act Affecting Individuals

The CARES Act, signed into law on March 27, 2020, is a massive economic relief package with numerous tax breaks. For individuals, the most important form of tax-related relief may be the stimulus checks the government will be making to those with income under a certain level. But, there are other favorable tax provisions.

The following is a brief overview of the key tax provisions of the CARES Act affecting individuals:

Direct Payments

Single individuals and joint filers can expect to receive a payment of \$1,200 or \$2,400, respectively, plus \$500 for each qualifying child. However, the recovery rebate credit is reduced (but not below zero) by 5 percent of the amount by which the taxpayer's adjusted gross income exceeds (i) \$150,000 in the case of a joint return, (ii) \$112,500 in the case of a head of household, and (iii) \$75,000 in the case of a single taxpayer or a taxpayer with a filing status of married filing separately. Rebates will be issued based on 2019 income tax returns, or 2018 returns for individuals who haven't yet filed in 2019. The rebates are eligible for electronic disbursement to any account to which the payee authorized, on or after January 1, 2018, the delivery of a refund of taxes or of a federal tax payment, including federal retirement benefits.

Because recovery rebate credits are actually calculated on a taxpayer's 2020 tax return, based on a taxpayer's 2020 AGI and filing status, and the payments to be received by taxpayers are based on either 2018 or 2019 tax information, there will be numerous situations in which the amounts will differ. Because of the taxpayer-friendly way in which the provision was drafted, it appears that taxpayers who receive an advance refund (based on their 2018 or 2019 tax information) greater than their recovery rebate credit amount (based on their 2020 AGI and filing status) will be allowed to keep the excess. The Act does not include any provision for recapturing excess advance refund amounts or requiring taxpayers to recognize such amounts as income. On the other hand, taxpayers whose advance

refunds are less than the recovery rebate credit amount will receive a credit for the difference when they file their 2020 return.

The Treasury Department and the Internal Revenue Service have also launched a new web tool allowing quick registration for these recovery rebate credits for those who don't normally file a tax return. The non-filer tool, developed in partnership between the IRS and the Free File Alliance, provides a free option designed for people who don't have a return filing obligation, including those with too little income to file. The feature is available only on IRS.gov, and users should look for Non-filers: Enter Payment Info Here to take them directly to the tool.

Retirement Funds

The CARES Act waives the 10% early withdrawal penalty for coronavirus-related distributions from retirement plans and provides the option of recontributing the funds for up to three years after such distributions are made. A "coronavirus-related distribution" is any distribution from an eligible retirement plan made on or after January 1, 2020, and before December 31, 2020, to an individual (i) who is diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention, (ii) whose spouse or dependent is diagnosed with such virus or disease by such a test, or (iii) who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of child care due to such virus or disease, the closure or reduction of hours of a business owned or operated by the individual due to such virus or disease, or other factors as determined by the Secretary of the Treasury.

Required Minimum Distributions

The CARES Act waives the required minimum distribution rules for 2020 for defined contribution plans and IRAs.

Above-the-Line-Deduction for Charitable Contributions

Individuals, whether they itemize deductions or not, can take a deduction of up to \$300 for charitable contributions made during 2020 and the limitations on the amount of charitable contributions that a taxpayer may take an itemized deduction for are loosened. In addition, the CARES Act loosens the deduction limitation on

contributions of food inventory.

Student Loan Debt

The CARES Act excludes from income certain student loan debt repaid by an individual's employer. It applies to repayments made after date of enactment and before 2021.

Please feel free to contact us if you have more questions in regard to these issues.

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