<u>**CARES ACT – INDIVIDUAL TAX PROVISIONS**</u>

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) had a number of individual tax incentives designed to provide financial relief to individual taxpayers who are suffering hardship because of the health or economic damage caused by the Covid 19 virus.

Below is a summary of the various components of the relief. <u>Stancil is happy to discuss with your further how any of these provisions apply to your individual situation</u>.

<u>**Individual Recovery Rebate/Credit**</u>

This is no doubt the one you have heard the most about. An **eligible individual** is allowed a credit on their 2020 income tax return of **$1,200 ($2,400** for a couple filing joint) plus **$500** for each **qualifying child**. <u>Most taxpayers will receive an advance payment of this credit over the next several weeks</u>.

- An “eligible individual” is any taxpayer other than one who can be claimed as a dependent of another.
- A “qualifying child” is one under age 17.
- The credit is phased out for certain high income taxpayers. The phase-out is equal to 5% of one’s adjusted gross income (AGI) over certain income thresholds:
    - $**150,000** for a joint return
    - $**112,500** for a head of household return
    - $**75,000** for all other taxpayers

The advance payment will be determined based on one’s 2019 tax return. If 2019 has not yet been filed, it is based on one’s 2018 return.

Stancil Observation: For taxpayers subject to the income phaseout, if 2019 income is more than 2018, then filing of the 2019 return should be delayed until after the checks are processed. On the other hand, if 2019 income is less, the filing should be expedited. <u>Stancil is currently reviewing all returns we are preparing and will offer individual advice to you if you are in this situation.</u>

If one does not receive an advance payment because of 2019/2018 income being too high, but falls under the income threshold in 2020, then the taxpayer will be able to claim the credit on the 2020 tax return. On the other hand, if a taxpayer qualifies for an advance payment, they will not have to repay the advance even if 2020 income rises above the income threshold. Confused yet?

<u>**Expanded Charitable Deductions**</u>

Beginning in 2020, <u>for taxpayers who take the standard deduction</u>, they are allowed to take a charitable deduction of up to $300. It appears this is a permanent provision. This has been clamored for since the larger standard deductions became effective in 2018. Expect this provision to continue and grow in the future.

In addition, during 2020, at the election of the taxpayer, the annual limitation on the charitable deduction is <u>increased from 60% of one's gross income to 100%</u>. This expansion does not apply to contributions to a donor advised fund.

<u>RMD Requirement waived for 2020</u>

Required Minimum Distributions (RMD's) are normally required from IRA's and 401K's once the participant reaches age 72. <u>The RMD requirement is waived for 2020</u>. This is great news for retirees concerned about having to make withdrawals from their retirement account when the value is suppressed due to the recent bear market. Of course, the distributions are still allowed, just not required.

<u>Penalty Free IRA Withdrawals / Extended Rollover Period</u>

Normally, when one withdraws funds from an IRA or 401K before the permitted date (in most cases, age 59 ½), an early withdrawal penalty is owed equal to 10% of the amount distributed. <u>The 10% early withdrawal penalty does not apply for 2019</u> withdrawals for individuals who are diagnosed with Covid 19 (or their spouse or dependent) or whose work is reduced due to the virus. The maximum penalty free withdrawal is $100,000.

The withdrawal is still subject to income tax. However, unless the taxpayer elects otherwise, the <u>distribution is included in income over the next three years (1/3 each year)</u>.

Furthermore, <u>the taxpayer can roll the distribution back into the retirement account at any time over the 3 year period after the withdrawal is made.</u> This is an extension of the normal 60 day rollover period.

Stancil Observation: Our recommendation is that this provision for expanded opportunities for IRA withdrawals be viewed as a last resort. In most cases, one would not want to withdraw from their IRA at a time the value is suppressed

Stancil Observation: On the other hand, this may be an excellent time to execute a Roth Conversion of a portion of one's IRA or 401K. The taxable amount of the Roth conversion is based on the value on the date of conversion, and thus the taxable amount is lower with retirement account values being down.

<u>Student Loan Repayments</u>

Employer payments of student loans of up to $5,250 can be excluded from the taxable income of the employee during 2020. Such payments are becoming increasingly popular. We would not be surprised to see this provision become permanent.

For additional information or questions, please contact

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April 1, 2020