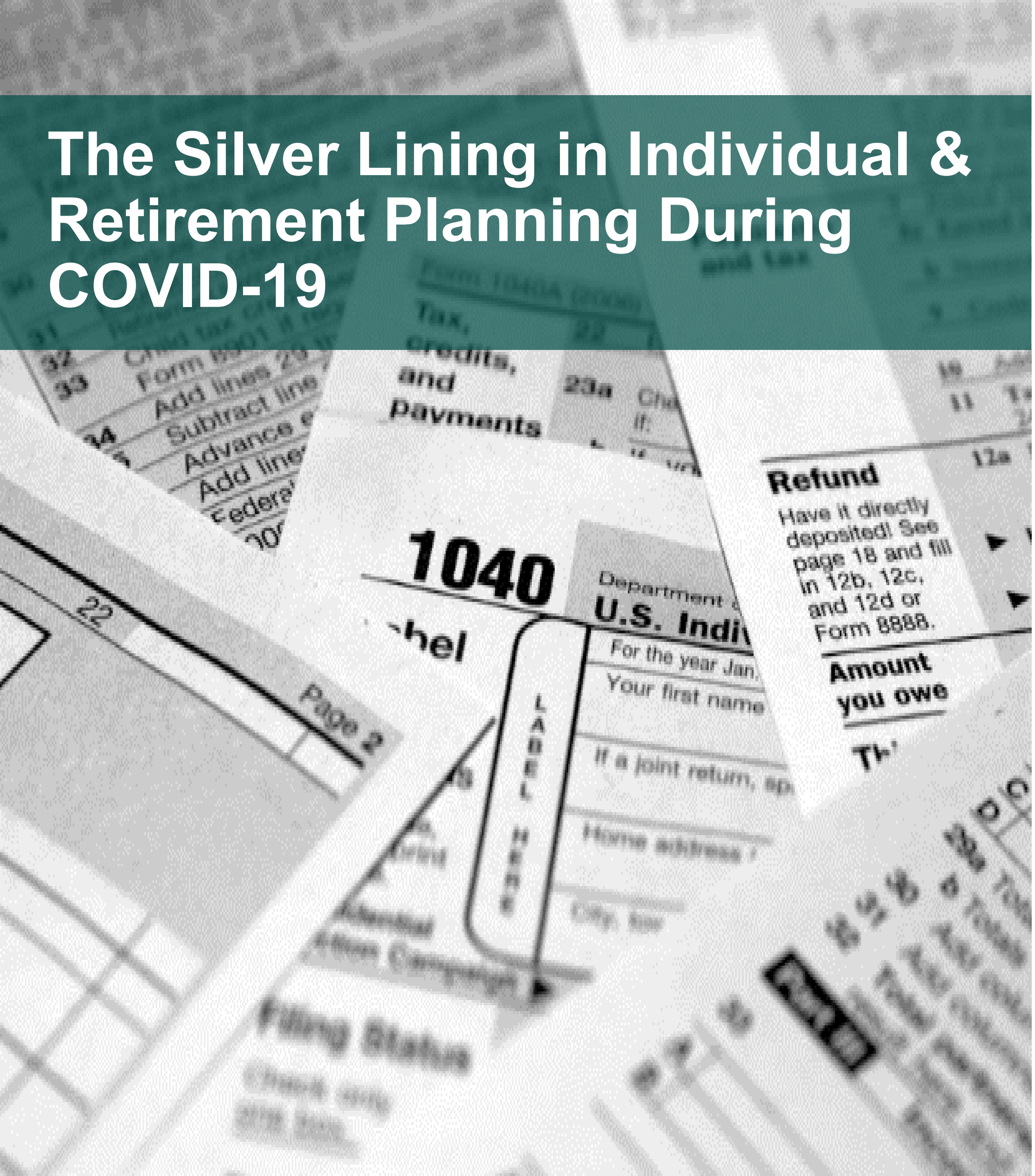
# The Silver Lining in Individual & Retirement Planning During COVID-19





**Lawrence G. Silver**
**Director**
**Tax Strategies**

**Lisa Pileggi, CPA**
**Director-in-Charge,**
**Tax Strategies**

**www.kmco.com**


Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# Agenda

**June 11, 2020**

1. Recovery Rebate Payments
2. Charitable Contributions
3. Pass-through Business Losses
4. Retirement Funds – Covid-19 related distributions, loans, required minimum distributions
5. SECURE Act

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# DIRECT CASH PAYMENTS (RECOVERY REBATES)

- $1,200/single
- $2,400/married filing joint
- $500/child
- Cash payments phase out by five percent (5%) of so much of the taxpayer's adjusted gross income (AGI) that exceeds $150,000 for married filing joint, $112,500 for head of household and $75,000 for a single individual or a married individual filing separately such that no refund will be received if AGI exceeds:
  - $99,000/single
  - $146,500/head of household
  - $198,000/married filing joint
- Based on 2019 federal income tax return, if filed or 2018 if 2019 return not filed

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# DIRECT CASH PAYMENTS (RECOVERY REBATES) con't.

- If a refund was not received but the taxpayer was entitled to a refund, the refund will be a refundable credit against the taxpayer's 2020 tax.
- What happens if a check is received in the wrong name or to a deceased individual or spouse?
- What happens if your payment is based on your 2018 return because your 2019 return has not been filed to date and your payment based upon your 2019 return would result in a different amount?

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# DIRECT CASH PAYMENTS (RECOVERY REBATES) con't.

- See IRS Economic Impact Payout Information Center at IRS.gov (62 questions and answers updated through June 2020)
- Contact IRS.gov …. "Get my payment".
- Call 800-829-1040 or 800-919-9835

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# CHARITABLE CONTRIBUTIONS

- For 2020, there is an “above the line” deduction in computing adjusted gross income (AGI) for $300 cash contributions to public charities.
- For those taxpayers that itemize their deductions, there is a temporary suspension of the existing 60% limitation on certain cash contributions paid during 2020:
  - Public charities (not private foundations or donor advised funds)
  - 100% of AGI
  - Excess contributions not deducted in 2020 can be carried forward subject to the 60% limitation over the next five (5) years

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# LIMITATION ON BUSINESS LOSSES (PASS-THROUGHS)

- Under the TCJA, the amount of losses for an individual stemming from pass-through businesses are limited to $500,000 (MFJ) and $250,000 for all other tax filers.
- Amounts in excess of these amounts are carried forward as a net operating loss under the TCJA.
- This law was effective for 2018-2025.

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# LIMITATION ON BUSINESS LOSSES (PASS-THROUGHS), con't.

- The CARES Act defers this limitation under the TCJA until 2021.
- Therefore, for 2018, 2019 and 2020 individuals may have greater losses to deduct and may need to amend 2018 income tax returns.
- 2018 losses along with 2019 and 2020 losses may now be carried back five (5) years.
- 2018 carryback claims must be filed on or before June 30, 2020.
- State results may be different, however as states may not adopt the CARES Act or may not allow loss carrybacks.

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# NET OPERATING LOSSES – PRE/POST-TCJA, CARES

| Pre-TCJA | Post-TCJA | CARES Act |
|---|---|---|
| 2-year carryback, 20-year carryforward | No carryback, indefinite carryforward for NOLs generated in taxable years ending after 12/31/2017. | 5-year carryback for NOLs in taxable years beginning after 12/31/2017 and before 1/1/2021. |
| No limitation on ability to offset current taxable income with NOL deduction, 90% AMT limitation. | For taxable years beginning after 12/31/2017, limited to 80% of taxable income computed without regard to NOL deduction.<br><br>Ordering of pre-2018 NOLs ambiguous. | For years beginning after 12/31/2020, NOL deduction limited to 80% of taxable income following the deduction of any pre-2018 NOLs, before any §199A or §250 deduction. |

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# USE OF RETIREMENT FUNDS – PENALTY FREE

- Generally there is a prohibition for qualified retirement plans to make distributions to plan participants before retirement or termination of employment.
- Participants are usually subject to taxation on any distributions and also depending on the participants age, may be subject to a 10% additional tax.
- The CARES Act waives the 10% early withdrawal penalty for distributions up to $100,000 from qualified retirement plan accounts for “coronavirus related” purposes during 2020.

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# USE OF RETIREMENT FUNDS – PENALTY FREE, con't.

- Coronavirus related is where the recipient was:
  - Diagnosed with COVID-19
  - Spouse or dependent was diagnosed with COVID-19
  - Experience adverse financial consequences as a result of being quarantined, laid off, having work hours reduced or, in the case of an owner of the business, having to close or reduce hours of the business.
  - Other factors determined by the Secretary of the Treasury
- Taxable amounts due to these distributions can be included in income ratably over three (3) years beginning in 2020.
- The CARES Act permits repayment of the distribution over a three (3) year period. The amount repaid is treated as a rollover and not included in income.

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# INCREASED LIMITS ON LOANS FROM RETIREMENT PLANS

- Employer sponsored retirement plan loans were limited to the lesser of $50,000 or one-half (1/2) of the present value of the employee's vested accrued benefit.
- Now, the plan can increase the loan amount to the lesser of $100,000 or up to 100% of the vested balance for those individuals affected by the coronavirus.
- New loans issued to such an individual can be issued for a term one (1) year longer than the maximum five (5) year term normally allowed.

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# INCREASED LIMITS ON LOANS FROM RETIREMENT PLANS, con't.

- Also, the CARES Act permits the employer to suspend repayment of existing loans for such an individual for up to one (1) year and to extend the repayment term for existing loans by one (1) additional year.

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# TEMPORARY WAIVER OF REQUIRED MINIMUM DISTRIBUTION (RMD) RULES

- The RMD is waived for qualified contribution plans, annuities under Sections 403(a) or 403(b), eligible governmental deferred compensation plans and IRAs.
- Generally, RMDs must now begin at age 72 for individuals born on or after 7/1/1949 or at age 70 ½ for individuals born before 7/1/1949.
- New age limitations were part of the SECURE Act effective January 1, 2020.

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# STUDENT LOAN AND UNEMPLOYMENT PROVISIONS

- Federal student loan payments are suspended.
- Temporary interest rate on federal student loans is 0%.
- Students in default are no longer subject to IRS garnishment.
- The above are effective from March 27 through September 30, 2020.
- Up to $5,250 of student loan may be repaid by an employer tax free as part of the employer's qualifying educational assistance program (from 3/27/2020 through 12/31/2020).
- $600 weekly federal unemployment benefit through 7/31/2020.

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# SECURE (Setting Every Community Up for Retirement Enhancement) ACT

- Required Minimum Distributions (RMDs) will begin at age 72 not 70 ½ for those born on or after 7/1/1949. If you are currently receiving a RMD or should be, you must continue taking the RMD.
- You can contribute to your traditional IRA after age 70 ½.
- Upon the death (after 12/31/2019) of an account owner, distributions to non-spouse beneficiaries must be made within 10 years. No longer able to "stretch out" the RMDs if the beneficiaries of the plan were much younger than the deceased owner. There are exceptions for spouses, disabled individuals and individuals not more than 10 years younger than the account owner.
- Minor children who are beneficiaries of an IRA account also have special exception to the 10 year rule but only until they reach the age of majority.

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# SECURE ACT – KIDDIE TAX CHANGES

- Before the TCJA, the kiddie tax on a portion of a child's investment income was taxed at the parents' marginal federal tax rate.
- For tax years 2018-2025, the TCJA changed this rule to tax the investment income at the rates paid by trusts and estates. These trust and estate rates reach maximum tax rates much quicker than individual rates.
- The SECURE Act repeals the TCJA kiddie tax rate change and reinstates the Pre-TCJA rules (the parents' marginal rate).
- The SECURE Act changes can be applied for 2019 returns and amended returns may be needed for 2018.

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# Contact the Presenters at kmiller@kmco.com

**Lawrence G. Silver**
**Director, Tax Strategies**

Larry is a trusted advisor for a broad range of clients including mid-market and private companies. He has extensive experience with a wide range of complex tax matters relating to his clients' businesses. He has advised on many transactions and provided both tax due diligence and tax structuring advice. Larry is also a member of the firm's ESOP Group.

**Lisa G. Pileggi**
**Director, Tax Strategies**

As the Director-in-Charge of Kreischer Miller's Tax Strategies practice, Lisa provides strategic leadership and management of the group, including recruiting, training, team member development, and serving as a resource on technical matters. She is a trusted advisor to her clients, providing tax and business advisory services for a broad range of privately-held businesses including real estate developers and investors, construction contractors, manufacturers, and distributors.

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS

# About Kreischer Miller

Kreischer Miller is an accounting, tax, and business advisory firm that has been serving clients since 1975. We've built our firm to respond to the unique needs of growth-oriented private companies, helping you smoothly transition through growth phases, business cycles, and ownership changes. The companies we work with need to be able to quickly adapt and respond to changing market opportunities and challenges. That's why our focus is on being responsive, decisive, and forward-thinking. We're up to the challenge—always looking at the road ahead, not in the rear-view mirror. **Learn more at www.kmco.com.**

Kreischer Miller

PEOPLE | IDEAS | SOLUTIONS