

# What You Need to Know About Key Individual Tax Provisions in the CARES Act

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# Economic Impact Payments (“EIP”)

## Who qualifies?

- U.S. citizens and U.S. resident aliens;
- Individuals not eligible to be claimed as a dependent on someone else’s return;
- Individuals having a valid Social Security number; and
- Individuals having adjusted gross income below the threshold amount based on your filing status and the number of your qualifying children.

# Economic Impact Payments (“EIP”) - continued

How much could I receive?

- \$1,200 per individual or \$2,400 for joint filers
- plus \$500 per qualifying child (unlimited)

Who is considered a qualifying child?

- A son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister or a descendant of any of these individuals;
- The child must not have provided more than half of their own support;
- The child must be claimed as a dependent on your tax return;
- The child must be a U.S. citizen, U.S. national or U.S. resident alien;
- The child must have lived with you for at least half of the year;
- The child must be under the age of 17 at the end of the taxable year.

## Economic Impact Payments (“EIP”) - continued

Will my dependent child age 17-24 qualify for a stimulus payment? NO

- Any dependent 17 or older are not considered a qualify child and do not qualify for the \$500 stimulus payment.
- In addition, they are not eligible to claim the \$1,200 stimulus payment.

Note: Exclusion also applies to any parents or other dependents over age 16 claimed as a dependent on your return.

# Economic Impact Payments (“EIP”) - continued

What are the gross income limitations?

The payment begins to phase out by 5% for every dollar adjusted gross income (“AGI”) exceeds the threshold amount below:

Filing Type	AGI Threshold
Single Filers	\$75,000
Married Filing Joint	\$150,000
Head of Household Filers	\$112,500

For example, Mary is a single taxpayer with no children. On her tax return, she reported \$80,000 of adjusted gross income. Since her adjusted gross income is \$5,000 over the \$75,000 single filer threshold amount her \$1,200 payment will be reduced by \$250 to \$950.

## Economic Impact Payments (“EIP”) - continued

The payment for eligible individuals will be reduced to \$0 once the individual exceeds the following thresholds:

Taxpayer	Qualifying Children	Phased-out if AGI Exceeds:
Single Taxpayer	0	\$99,000
Single Taxpayer	1	\$109,000
MFJ Taxpayer	0	\$198,000
MFJ Taxpayer	2	\$218,000
HOH Taxpayer	1	\$146,500
HOH Taxpayer	2	\$156,500

For example, Mary is a single taxpayer and has one qualify child. On her tax return, she reported \$100,000 of adjusted gross income. Since her adjusted gross income is \$25,000 over the \$75,000 single filer threshold amount her payment will be reduced by \$1,250. Mary is not completely phased-out because of the additional \$500 rebate received for her qualifying child. Mary’s EIP payment will be \$450 (\$1,700 - \$1,250).

## Economic Impact Payments (“EIP”) - continued

How is the payment calculated?

- The payment will be based on the individual’s most recent income tax filing (2018 or 2019 tax filings).
- If you are not required to file a 2018 or 2019 tax return but are receiving Social Security or Railroad Retirement benefits, the payment will be based on your 2019 benefits received.
- The payment will be recalculated on your 2020 return using 2020 AGI.
  - Any excess payment already received will not need to be repaid.
  - Any additional credits can be claimed on your 2020 tax return.

# Economic Impact Payments (“EIP”) - continued

What do I need to do to receive my payment?

- Nothing – assuming you have already filed your 2018 or 2019 tax return or not required to file due to receiving Social Security or Railroad Retirement benefits.
- If you haven’t filed and don’t receive SS or other federal benefits, you will need to either:
  - Enter your information on the Non-Filers portal on the IRS website (only available to individuals with gross income less than \$12,200 (\$24,400 for MFJ) or
  - File a 2019 tax return

The stimulus payment will be issued via direct deposit (if reported on latest tax return) or by paper check. If you did not receive your refund by direct deposit, you have the opportunity to provide bank account information through the IRS “Get My Payment” tool before your payment is processed. Direct deposit is the fastest way to receive your payment.

No later than 15 days after issuing the payment, the IRS will mail a notice to the your last know address indicating the method and amount of payment.





# Coronavirus Related Distributions

- Individuals can withdraw up to \$100,000 for coronavirus-related purposes from tax-qualified retirement plans (such as IRAs, 401k, etc.) during 2020 without incurring the usual 10% early distribution penalty.
- A distribution would qualify if paid to an individual:
  - Diagnosed with the coronavirus, or
  - Spouse or dependent is diagnosed with the coronavirus, or
  - Who has experienced adverse financial consequences as a result of being quarantined, furloughed, laid off, or having work hours reduced due to the coronavirus, or
  - Being unable to work because of a lack of child care due to the coronavirus, or
  - Having to close or reduce hours of a business owned or operated by the individual due to the coronavirus.
- 10% early withdrawal penalty waived, but distribution still may be included in income
  - Income inclusion of distribution can be spread over 3 years
  - Income inclusion waived if distributed amount re-contributed within 3 years

# Increase in employer contribution plan loans

For qualified retirement plans (such as 401k) the CARES Act:

- Increased the borrowing limit from \$50,000 to \$100,000 or 100% of vested balance, whichever is less.
- Expanded limits would only apply for loans made between from March 27 to September 23, 2020.
- In addition, any outstanding loan on or after March 27, 2020 (the date of enactment of the *CARES Act*) from a qualified retirement plan would receive a one year deferral of payments due between March 27, 2020 and December 31, 2020.

Plans are not required to increase these limits and therefore employers will need discuss these provisions with their plan administrator to determine if any plan amendments are needed.

# Temporary Waiver of RMD Rules

- The CARES Act waives the required minimum distribution (“RMD”) rules for certain defined contribution plans (401k, 403b) and IRAs for calendar year 2020.
- RMDs that have already been taken in 2020 may be rolled over within 60 days of the distribution.
- Waived RMDs do not need to be taken in subsequent years.

## Takeaways:

- Waiver of the RMD defers the tax due on the distribution and provides your retirement account extra time to recover some of the lost value related to the market decrease.
- This decrease may provide an opportunity to convert your traditional IRA into a Roth.
- The deadline to make a 2019 IRA contribution has been extended to July 15, 2020.

# Charitable Contributions During 2020

Individuals who do not elect to itemize their deductions in 2020 may take a qualified charitable contribution deduction of up to \$300 against their AGI.

Charitable contribution deduction limitation raised to 100% of AGI for cash contributions made in 2020.

A qualified charitable contribution is a charitable contribution:

- made in cash, and
- charitable contribution deductible under Code Sec. 170, and
- made to publicly supported charities.

Contributions to Section 509(a)(3) or donor advised funds do not qualify.

*Planning considerations:*

- Does it make sense to accelerate any 2021 deductions into 2020?

# Other Miscellaneous Provisions

## Student Loan Assistance

- The CARES Act provides federally held student loans a temporary suspension of payments and interest thru Sept. 30, 2020.
- In addition, the CARES Act expands the definition of educational expenses qualifying for the \$5,250 exclusion to include employer payments of student loan debt through the end of 2020.

## Expansion of Non-Prescription Medical Products

The CARES Act allows amounts paid after December 31, 2019 from HSA, FSA and HRA accounts used to cover over-the-counter medical products and menstrual care products to be treated as amounts paid for medical care.

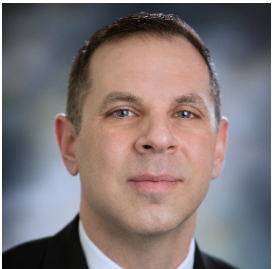
## Telehealth Services

For plan years beginning before 2021, the CARES Act allows high deductible health plans to pay for expenses for tele-health and other remote services without regard to the deductible amount for the plan.

Contact the Presenters at [kmiller@kmco.com](mailto:kmiller@kmco.com)



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