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# CARES Act signed into law

March 2020

**President Trump signed the estimated \$2.2 trillion CARES Act into law on March 27, 2020. The CARES Act of 2020 is short for the Coronavirus Aid, Relief and Economic Security Act.**

It was a combination of Senate Bill 3548 and HR 748. Its primary purpose is to provide emergency economic assistance and healthcare responses for individuals, families and businesses affected by the 2020 coronavirus pandemic.

**According to NPR.org, here are the benefits:**

- Individuals will benefit by roughly \$560 billion
- Large corporations/employers by \$500 billion
- Small businesses by \$377 billion
- State and local government by \$339.8 billion
- Public health by \$153.5 billion
- Education/other by \$43.7 billion
- Safety net provisions \$26 billion

**The bill includes the following for individuals:**

**Income tax and payments delayed**

With the April 15 tax filing deadline approaching, the Act delays the filing of income taxes and payment of taxes until July 15, 2020. Contributions to qualified plans are also extended until July 15, 2020.

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Providing emergency economic assistance and healthcare responses for individuals, families and businesses affected by the 2020 coronavirus pandemic.

**Cash payments**

Most individuals earning less than \$75,000 can expect a one-time \$1,200 payment. Married couples would get \$500 for each dependent child. An average family of four, earning less than \$150,000, might expect \$3,400. The benefits are fully phased out for individuals making more than \$99,000 or married couples making more than \$198,000. This will be based on the last filed income tax return.

This is more complex than it may seem. These payments are really advances based on an individual's most recent return; the 2019 tax year filing if already completed or, if not, the 2018 return. However, eligibility will need to be based on each person's 2020 return that won't be filed until spring 2021. At that point, the advance will need to be recalculated on the true 2020 income.

In some instances, a person may owe the IRS if their 2020 income proved is higher than the estimate; if their income was less than the estimate and they were owed more of the \$1,200 than they actually received, then that difference will be available to them as a credit against their 2020 taxes.

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### Key takeaway

The payments are automatic. If the payment isn't needed, it might make sense to hold it in the event it needs to be repaid when filing 2020 taxes. No matter what, it will make filing 2020 taxes more complicated.

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### Extra unemployment benefits

State-run programs will continue to pay benefits, but eligibility is increased and benefits are broadened. The law adds \$600 per week from the federal government on top of whatever the recipient is currently receiving by way of state benefits so as to help shore up consumer spending from the sudden ranks of the unemployed. This amount will last for 4 months (July 2020). If a person is currently unemployed and is making \$300/week, that person will make \$900/week for the next 4 months. The number of total "regular payments" has been increased by 13 weeks. If a person receiving unemployment had 20 weeks of benefits, they would now have 33 weeks. Extensions are available for the longer period.

A similar program for temporary, or so-called "gig" workers, has been created as the Pandemic Unemployment Assistance Program. This will be for persons who lost contracts due to the crisis.

### Use of retirement funds

The law allows people to withdraw up to \$100,000 from their qualified plan or IRA before age 59½ without the 10% penalty or 20% withholding.\* Taxation on that withdrawal can be spread over 3 years and may be recontributed within the same 3 year time frame. The limit on 401(k) loans was raised from \$50,000 to \$100,000 (until December 31, 2020). If the vested balance is less than \$100,000, the entire vested balance can be borrowed. Those loans are repayable over 6 years. Employers are not required to allow the withdrawal or loan.

### Required minimum distributions

RMDs are suspended for 2020. They will be allowed to remain in the plan and accumulate tax-free.

### Charitable giving

There is a \$300 qualified cash charitable deduction for non-itemizers, meaning the \$300 will reduce the taxpayer's adjusted gross income. Qualified contributions must be to IRC Section 501(c)(3) charities. They are not allowed to donor-advised funds (DAFs) or private foundations. This can be taken on the 2020 taxes filed in 2021.

### Student loans

Payments are suspended through September 30, 2020 with no interest accrued.

### Coronavirus testing

All testing and potential vaccines for COVID-19 will be covered at no cost to patients.

## Businesses: both large and small

### Large corporations

\$500 billion will be allotted to provide loans, loan guarantees and other investments to large corporations. These will be overseen by the Treasury Department inspector general under expanded powers that were granted to the Treasury. These loans will not exceed 5 years and cannot be forgiven. Airlines will receive \$50 billion (of the \$500 billion) for passenger air carriers, and \$8 billion for cargo air carriers.

The funding of defined benefit (DB) plans are delayed to January 1, 2021.

Corporations can contribute up to 25% of taxable income to IRC Section 501(c)(3) charities, up from 10%.

Employers may provide up to \$5,250 in student loan repayments to employees income tax-free to January 1, 2021.

\*The individual or spouse is diagnosed with COVID-19 by a test approved by the Centers for Disease Control and Prevention. The individual experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to COVID-19, being unable to work due to lack of child care due to COVID-19, closing or reducing hours of a business owned or operated by the individual due to COVID-19, or other factors as determined by the Secretary of the Treasury.

### **Small business relief for employee retention**

Approximately \$350 billion is being dedicated to preventing layoffs and business closures while workers must stay home during the outbreak. Companies with 500 employees or fewer that maintain their payroll during coronavirus can receive up to 8 weeks of cash-flow assistance via a forgivable interest-free note. If employers maintain payroll, the portion of the loans used for the covered Employee Retention Credit is up to 50% of wages paid if the business was shuttered by the state or federal government or if the business lost more than 50% when compared to the previous year's quarter.

### **Payroll taxes delayed**

Payroll taxes due in 2020 can be delayed and spread over next 2 years with half due by December 31, 2021 and the balance by December 31, 2022.

### **Net Operating Losses (NOLs)**

The recent Tax Cuts and Jobs Act (TCJA) net operating loss rules are modified. The 80% rule is removed, and losses can now be carried back 5 years. There is also a 20-year carryforward of NOLs incurred before January 1, 2018 PLUS the lesser of: (1) all NOLs after December 31, 2017 or (2) 80% of taxable income payroll costs, interest on mortgage obligations, rent and utilities would be forgiven.

### **Excess loss limitations**

The excess loss limitation (ELL) rules for pass-through entities are suspended for excess losses incurred in 2018, 2019 and 2020.

### **Interest expense limitation**

The interest expense limitations are temporarily increased to 50% from 30% for tax years beginning in 2019 or 2020. Taxpayers can also elect to calculate the interest limitation for 2020 using their 2019 adjusted taxable income as the relevant base, which often will be significantly higher.

## **Non-business provisions to address the COVID-19 crisis**

### **Hospitals and healthcare**

The deal provides over \$140 billion in appropriations to support the U.S. health system, \$100 billion of which will be available directly into hospitals. The rest is dedicated to providing personal and protective equipment for healthcare workers, testing supplies, increased workforce and training, accelerated Medicare payments, and supporting the Center for Disease Control and other health investments.

### **States and local governments**

State, local and tribal governments will receive \$150 billion.

- \$30 billion is set aside for states and educational institutions to help cope with their increased costs
- \$45 billion for disaster relief, and
- \$25 billion for transit programs.

The law also increases the amount the Agriculture Department can spend on its bailout program from \$30 billion to \$50 billion.

## **Contact your financial professional to learn more.**

The information provided in this flyer is based on our understanding of the CARES Act and is not a complete description of the CARES Act. Clients should consult their own advisors for their individual circumstances.

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