



# Empowered Future Report

Short term thoughts about long term matters

**April 19th, 2020**

## **CARES Act**

Taylor and I have been studying up on the major aspects of the CARES Act recently passed by Congress and signed by the President. We think it is important for you to be aware of at least some of the highlights and you may wish to consult your tax preparer on how they specifically relate to your situation. Below includes Taylor's summary – a quick, non-partisan summary of key provisions.

However, I think it's important for our clients and friends to know that while I understand both the need for social distancing, etc. to stop the spread of COVID-19 and urgent desire for our lawmakers to now "do something" about their shutdown of the economy, I believe this stimulus law is, like many before it, going to have the effect of burdening our children and grandchildren with even more debt that cannot be paid back without inflation and incredibly distorting effects on our economy. Suffice it to say that such laws make it even more difficult for rational investors to make valuation and allocation decisions. We will be scheduling another Virtual Workshop soon to discuss our strategies in more detail.

### **What is it?**

What is the CARES Act and why should I care? Congress recently passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act to help offset the economic concerns around the COVID-19 pandemic. We have been watching webinars, the news, and reading articles about this Act and wanted to take a moment to clarify how it may impact or benefit individuals.

### **Who finished their 2019 taxes already?**

Good news, if you have not yet, you still have time. Federal taxes for filers who have payment due dates of April 15<sup>th</sup> are now postponed until July 15<sup>th</sup>. According to the IRS.gov website there are some filers who may have had a

May 15<sup>th</sup> or other due date already—these returns are not postponed. [Check the government webpage](#) and confirm with your tax accountant if you are planning to delay.

### **Where's my check?**

For those of you wondering who/when/ where/ how much you should anticipate receiving from the government here's what we know:

- Will I get paid? Based on your filing status if you are single and have an adjusted gross income (AGI) at or below \$99k or married filing jointly with an AGI at or below \$198k you will receive some benefit. To get the full \$1,200 you would need to have an AGI at or below \$75k for single or \$150k joint.
- I haven't filed taxes yet for 2019- how will they know my AGI? They are looking at both 2018 and 2019 taxes. If you haven't filed yet, they'll use your 2018 taxes.
- Do I need to apply for this benefit? No, it's automatic.
- Check or digital? If you have direct deposit set up for your annual taxes you should receive your stimulus check directly into your bank account. If you usually receive a physical refund check for your federal taxes you will receive a physical check as well.
- What about dependents? I have kids, do I get a check for them? Parents will receive \$500 for each dependent child age 16 or younger.
- What about my 17-year-old kid? Or financially dependent college student child? Or disabled child? There are currently no benefits for these adults.
- I don't have a Social Security number; can I still get benefits? No, you need to have a social security number to be eligible.

### **Required Minimum Distributions (RMDs)**

Are you taking required retirement account distributions? Have you already taken this year's distributions? Are you not yet taking, but in need of IRA assets to cover your financial needs currently?

- If you do not need the funds or don't want to take the required distribution this year, they are not required for 2020. (\*\*Except from defined benefit plans\*\*) What about RMDs going forward? For 2021 you will take your RMDs based on the age you are at that time.

- If you have taken all or a portion of this year's distribution and took it after Feb 2nd you can do a 60-day rollover to transfer the funds back into your account between now and July 15th. If you took the distribution in January and are looking to roll it back into your account you would need to first qualify it as a COVID loan from your account and then you will have 3 years to repay it.
- Note: there is no option to roll back beneficiary IRAs if you have already distributed these assets.
- **\*\*The government is slow... IF you roll your assets back into your IRA you will NOT immediately get your tax withholding back.\*\***
- Coronavirus distributions: You can now take hardship withdrawals in the form of a loan payable in 3 years from your Employee Retirement accounts. Previously this was limited to your vested balance up to \$50k, you are now allowed to take your vested balance up to \$100k. By taking these funds out as a loan you have no mandatory 20% withholding and no early withdrawal penalty. The distribution will be taxable in the year you take the distribution, or you have the option to spread the taxability over 3 years. Once you pay the loan back you can amend your taxes to receive this taxable income back.

### **Charitable Contributions**

Are you feeling financially secure and looking to do additional charitable donations this year?

- If you're charitably inclined but had previously felt you wouldn't receive tax benefits in return due to the high standard deduction- the government is currently allowing charitable deductions outside of itemizing. They are now enacting an above the line deduction of up to \$300 for cash donations to 501c3 charities. (note: donor advised funds and organizations supporting charities do not count—you must send funds directly to the charity)
- Another change to note for the charitably inclined, you can now itemize deductions for gifts of cash to public charities (not including donor advised funds or supporting organizations) for up to 100% of AGI (previously 60%). you.

### **HSAs, FSAs & MSAs**

Healthcare: Do you have an HSA, FSA, or MSA and/or have increased health expenses right now?

- As before, we advise saving/growing/ investing your HSA assets since they provide pretax contributions AND tax deferred investment growth. However, if you have an FSA account that needs to be spent this year or if you are in a situation where you need these assets to cover medical costs we now have an expanded list of items that can be paid out of healthcare accounts. Expenses you can now use these assets for include: menstrual care products and over the counter medications are reimbursable without a doctor's note.
- Note: nutritional supplements, herbal remedies, and most vitamins DO NOT APPLY since they are considered food (not drugs) by the FDA.

**Calling all Business owners: this section applies to you.**

There several business owner options that you can take advantage of at this time, here is the information we have based on webinars and articles we have reviewed:

- Payroll Protection Program (PPP): non-recourse, no collateral loans you will have deferred or forgiven interest of 1% with a 2-year term. The govt will loan up to 2.5x your payroll and you must have less than 500 employees to qualify.
- Employee Retention Credit: New credit against payroll taxes. You must have had a 50% drop in quarter revenues and not be taking the PPP loan to qualify. This allows for a deferral of half of your payroll taxes [according to the IRS website:](#)

“A significant decline in gross receipts begins:

- on the first day of the first calendar quarter of 2020,
- for which an employer's gross receipts are less than 50% of its gross receipts,
- for the same calendar quarter in 2019.

The significant decline in gross receipts ends:

- on the first day of the first calendar quarter following the calendar quarter,
- in which gross receipts are more than of 80% of its gross receipts,
- for the same calendar quarter in 2019.”
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Are you paying tuition for your employees? The \$5,250 can now be used to pay back employee student loans too!