

CARES Act and Tax Changes – what you need to know

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Due to the COVID-19 (commonly referred to as coronavirus) situation and the dramatic impact it is having on the economy and financial markets, the State of Michigan, the Internal Revenue Service, and Congress have taken serious and wide-ranging steps to ease the financial burden of individuals as well as small businesses during this unprecedented period. As such, we wanted to outline some of the more pertinent actions that may be relevant to you and your family. Please use it as your reference guide.

Filing and payment deadlines deferred:

The IRS extended filing and tax payments for all individuals, trusts, estates, partnerships, associations, companies or corporations regardless of whether or how much they are affected by COVID-19.

- For a taxpayer with a Federal income tax return or a Federal income tax payment due on April 15, 2020, the due date for filing and paying is automatically postponed to July 15, 2020, regardless of the size of the payment owed.
- The taxpayer doesn't have to file Form 4868 (automatic extensions for individuals) or Form 7004 (certain other automatic extensions) to get the extension.
- The relief is for (A) Federal income tax payments (including tax payments on self-employment income) and Federal income tax returns due on April 15, 2020 for the person's 2019 tax year, and (B) Federal estimated income tax payments (including tax payments on self-employment income) due on April 15, 2020 for the person's 2020 tax year.
- No extension is provided for the payment or deposit of any other type of Federal tax (e.g. estate taxes) or the filing of any Federal information return.
- As a result of the return filing and tax payment postponement from April 15, 2020, to July 15, 2020, that period is disregarded in the calculation of any interest, penalty, or addition to tax for failure to file the postponed income tax returns or pay the postponed income taxes. Interest, penalties and additions to tax will begin to accrue again on July 16, 2020.
- Gift tax returns have been extended to July 15, 2020 and any payment as well.

Estimated tax payments for individuals which were due on April 15, 2020 will be due on July 15, 2020. However, the estimated tax payment due on June 15, 2020 remains due on that date.

The State of Michigan filing and tax payment deadlines, including any estimated tax payment, will now match the federal deadline extension. A Michigan or city income tax

return and payment due on April 15, 2020 will be due July 15, 2020 (a Michigan or city return and payment due April 30, 2020 will be due July 31, 2020).

The Michigan order automatically extends the above dates, so no additional forms are required to be filed for Michigan taxes.

CARES Act:

On March 27, 2020 the President signed, a third coronavirus relief package, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The following are important provisions for individuals.

- **Recovery Rebate for individual taxpayers.**

The CARES Act provides a \$1,200 refundable tax credit for individuals (\$2,400 for joint taxpayers). Additionally, taxpayers with children under age 17 will receive a flat \$500 for each child.

The rebate phases out at \$75,000 for singles, \$112,500 for heads of household, and \$150,000 for joint taxpayers. It phases out entirely at \$99,000 for single taxpayers with no children and \$198,000 for joint taxpayers with no children. For a head of household with one child, the rebate is completely phased out when AGI exceeds \$146,500.

If an individual has not yet filed their 2019 income tax return the IRS will look at the 2018 tax return to check for rebate eligibility. Social Security beneficiaries will still receive rebates even if they have not filed tax returns for 2018 or 2019.

- **RMD requirement waived for 2020.**

In general, a retirement plan or IRA owner is required to take required minimum distributions (RMDs) annually once the owner reaches age 72.

The CARES Act provides that the RMD requirements do not apply for calendar year 2020 for IRAs, 401(k), 457(b), and 403(b) plans.

The same also applies to inherited IRAs for this year.

For those who won't need their RMDs and have them set up automatically, now is a good time to call us to suspend RMDs for 2020.

In the event a RMD for 2020 has already been made, there is a strategy that can negate a taxable distribution. If a RMD was made within the last 60 days, the law allows a 60-day rollover to an IRA and not have it treated as a taxable distribution in 2020. A 60-day rollover may only be done once per 12-month period.

For example, if a RMD of \$20,000 for 2020 was distributed on March 1, 2020, a roll over into an IRA within 60 days from March 1, 2020 can be made. It will count as a 60-day rollover and the amount won't be taxable. If the 60 days pass, it will then result in a taxable distribution.

- **IRA contributions for 2019.**

July 15, 2020 will also be the new deadline for making IRA and Roth IRA contributions for the 2019 tax year.

- **Retirement plans and IRAs.**

The CARES Act provides for people under age 59 ½ the 10% additional tax does not apply to any coronavirus-related distribution, up to \$100,000.

A coronavirus-related distribution, up to \$100,000, is any distribution made on or after January 1, 2020, and before December 31, 2020, from an eligible retirement plan or IRA, made to a qualified individual. A qualified individual is you, your spouse or dependent who is diagnosed with COVID-19 or who experiences adverse financial consequences as a result of being quarantined, furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of child care due to such virus or disease, closing or reducing hours of a business owned or operated by the individual due to such virus or disease, or other factors as determined by the Secretary of the Treasury.

Distribution can be contributed back. Any individual who receives a coronavirus-related distribution may, at any time during the three year period beginning on the day after the date on which such distribution was received, make one or more contributions in an aggregate amount not to exceed the amount of such distribution, to their IRAs, 401(k), 457(b), 403(b) plans.

Distribution can be included in income over three years. In the case of any coronavirus-related distribution, unless the taxpayer elects not to, any taxable amount may be included in income equally over three years.

Loans from qualified plans. Individuals affected by coronavirus that are participants in qualified plans (i.e., 401(k) plan) can receive a loan for the lesser of one's account balance or \$100,000 (reduced by any outstanding loans), if the plan allows for loans.

- **\$300 above-the-line charitable deduction.**

For taxpayers taking the standard deduction (as they do not itemize) a deduction is allowed for the amount (not to exceed \$300) of qualified charitable contributions made, beginning in 2020.

There is a lot of information here that might impact you. As always, we are happy to connect with you at any time with questions about the above information or any other matters, related to COVID-19 or not. Stay safe.