

The CARES Act: Special rules for Retirement Plans, Tax Payments, Charitable Deductions & Recovery Rebate

Retirement Accounts

- **Coronavirus related distributions can be made available to the following “Qualified Individuals”**
 - Individuals diagnosed with COVID-19
 - Individuals whose spouse or dependent has been diagnosed with COVID-19
 - Individuals experiencing adverse financial consequences due to, quarantine, layoff, furlough, reduced work hours, inability to work due to child care, or the closure or reduction of hours of a business
- **401(k) and 403(b) loan limits increased for COVID-19 related purposes**

Check your plan document to see if it allows for loans

 - Maximum loan amount increased for loans made through December 31, 2020
 - Maximum loan amounts were doubled from \$50,000 or the lesser of 50% of the vested account balance to \$100,000 (reduced by other outstanding loans) or the lesser of 100% of the vested account balance.
 - Due date for repayment of the loan is delayed one year.
- **Hardship Distributions for COVID-19 related purposes made on or after 1/1/20***

Check your plan document to see if your plan allows for hardship withdrawals

 - 10% early withdrawal penalty waived for distributions up to \$100,000
 - Hardship withdrawals are still taxable
 - By default, the income is spread over three years, but an election can be made to include all of the distribution as 2020 income if more beneficial to the taxpayer
 - Investor can also recontribute funds back into retirement account within three years and avoid paying taxes
 - An amended return should be filed to claim the refund for any tax paid attributable to amounts already taxed in the previous years.
- **RMD Provisions**
 - Required minimum distributions waived for calendar year 2020
 - 401(k)s Plans
 - Traditional IRAs
 - Inherited IRAs
 - If you have not already taken your RMD this year and you don't feel you will need it, you may want to consider waiving it because it can give your retirement account time to recover from the market volatility.

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- o *What if you already took your RMD from a Traditional IRA?*
 - You can convert the RMD amount into a Roth IRA
 - You may be able to roll back the RMD into your IRA if:
 - You took your RMD from a Traditional IRA between Feb 1, 2020 and May 15, 2020 you have until July 15, 2020 to roll the funds back into the IRA
 - Rollover completed within 60 days of receipt of the funds; AND
 - You have not had an IRA to IRA or Roth IRA to Roth IRA rollover in the prior 12 months preceding receipt of the 2020 RMD
 - May actually make sense to take RMD in 2020 if effect of pandemic puts you into a lower tax bracket
- * RMDs in January 2020 can no longer be rolled back into the IRA

**Since new law waives RMDs for 2020 then technically it is no longer an RMD & should be eligible to be rolled back into the IRA. Many seem to suggest that the IRS will be liberal on the treatment of the impact of COVID-19, and therefore, for those who cannot use the rollover treatment, they may use the three-year repayment rule.*

- o *What if you already took your RMD from an inherited IRA?*
 - Non-spouse beneficiaries cannot undo RMDs already taken
- o *What if the owner of a Traditional IRA was taking RMDs and passed away in 2020?*
 - Non-spouse and spouse beneficiary can waive RMD required for 2020
- **Extended 2019 IRA & ROTH IRA Contributions**
 - o Deadline for making a 2019 IRA contribution extended to July 15, 2020 (since tax return filing deadline extended)
 - o You may want to hold off and take extra time to make 2019 contributions
- **IRA Beneficiaries subject to the 5-year rule (becomes a 6 year rule)**
 - o Beneficiaries who inherited in 2015 or later and are subject to the 5-year payout rule (for example, an estate beneficiary that inherited before the deceased IRA owner reached her RMD date) now have one more year to empty the account.

Tip: If you are still working, and are NOT a 5% owner (or more) of the business, then the retirement plan balance through that employer does NOT need to be included in the RMD calculation.

Recovery Rebates for Individuals

- Single taxpayers with adjusted gross income of \$75,000 and below will receive a recovery rebate of \$1,200. For married couples who file jointly with adjusted gross income of \$150,000 and below, they will receive \$2,400. Taxpayers with children will also receive \$500 per each qualifying child. This rebate will gradually decline by \$5 for every \$100 above the income thresholds, and will be completely phased out for individuals with income above \$99,000 and married joint filing couples with income over \$198,000.

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- The income is based on your most current tax returns filed with the IRS. For taxpayers who have not filed their 2019 tax returns but have substantially less income compared to 2018 should consider filing the 2019 return soon to qualify them for this rebate check.
- If a taxpayer would not be eligible for the rebate check based on his/her previous years' income, they will instead receive a refundable credit on their 2020 tax return filing if the taxpayer's income for 2020 falls below the threshold.
- Alternatively if the taxpayer currently qualifies for the rebate check based on prior years' income but this year earnings ultimately exceed the income threshold, the IRS will not claw back to recover the rebate payment.

Charitable Donations

- Individuals who claim the standard deduction will be eligible to take a \$300 deduction against their adjusted gross income for cash contributions made to public charities in 2020.
- Taxpayers can deduct 100% of their qualified contributions for tax year 2020. The deduction's limitation based on 60% of their modified adjusted gross income was removed for such contributions made during the year.
- The charitable donations do not have to be COVID-19 related in order to qualify for the deduction. However, contributions to a 509(a)(3) supporting organization or a donor advised fund would not be considered as qualified contributions.

Tax Filing/Payment Deadlines

- The IRS has extended the federal tax filing and payment deadline for the 2019 tax year until July 15, 2020, without penalties and interest regardless of the amount owed.
- This deadline extension also applies to the first quarter 2020 estimated income tax payment. *However, the second quarter estimated payment remains due on June 15, 2020.*
- Taxpayers are urged to check with their tax professionals about the state filing and payment deadline as this may vary from the federal deadline.

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