

MARCH 27, 2020

# Individual Planning with the CARES Act

## WHAT \$2 TRILLION IN STIMULUS MEANS (OR DOESN'T) TO YOU

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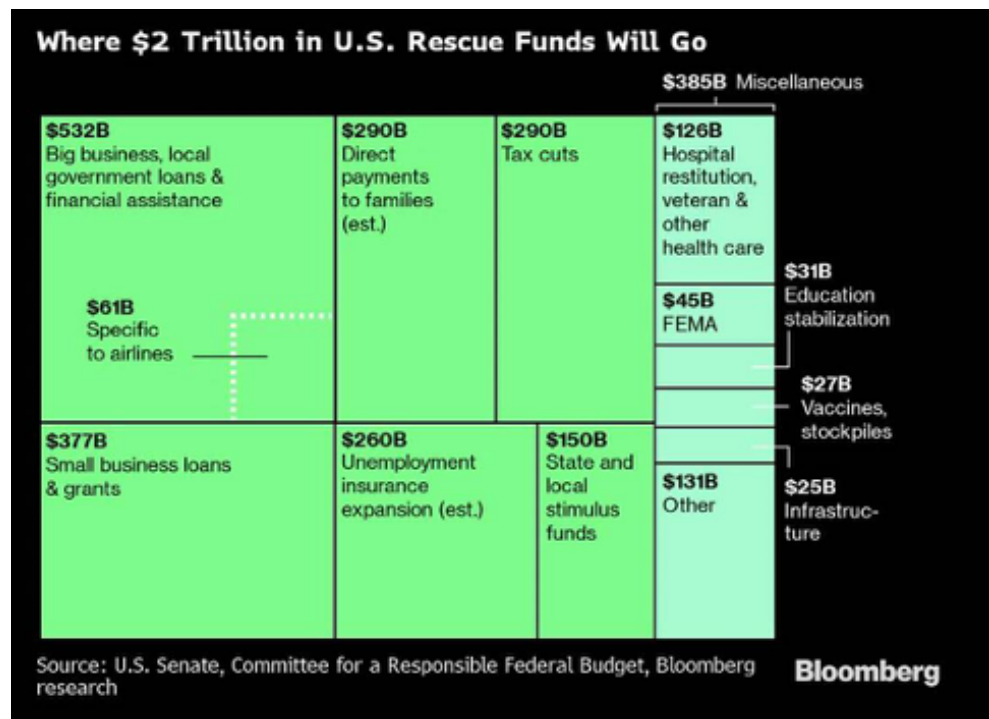
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**Peter Mallouk**  
JD, MBA, CFP®  
President

On Friday, March 27th, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The CARES Act is the third piece of legislation passed by Congress to help stimulate the US economy due to the effects of COVID-19. This is the largest stimulus package in modern history, totaling \$2 trillion in funds for individuals and businesses in the United States.



**Jeffrey Stolper**  
CPA, CFP®  
Director of Financial Planning

### Checks On The Way

The biggest headline of the Act is the \$290B of stimulus payments that are to be sent directly to individuals. The base amounts are \$1,200 per taxpayer (\$2,400 for a married couple filing a joint tax return) and \$500 per child.

If you are single and make less than \$75,000 in 2020, you will receive \$1,200. If you make over \$99,000, you will get nothing. For a single filer, the \$1,200 starts to phase out when adjusted gross income (AGI) exceeds \$75,000. The payment is reduced by \$5 for every \$100 of income over the limit, completely phasing out for individuals with \$99,000 of income.

If you are a married couple and make less than \$150,000, you receive \$2,400. If you make over \$198,000, you will get nothing. For married couples filing jointly, the \$2,400 begins to phase out when AGI exceeds \$150,000. The payment is reduced by \$5 for every \$100 of income over the limit, completely phasing out for married couples filing jointly with \$198,000 of income.

If you are single or married, you get \$500 for each child, subject to the same phase outs and limits above.

While the payments will ultimately be based on your 2020 AGI, 2019 AGI is initially being used to determine eligibility. If your 2019 return has not yet been filed, 2018 will be used. So what if you don't file taxes at all but collect social security? Not to worry! The IRS will determine your eligibility by looking at your social security benefits.<sup>1</sup> The timing of the payments is not yet determined, but the Act instructs the IRS to send payments "as rapidly as possible."<sup>2</sup>

It's hard to top free money being sent to you, but here are some other provisions:

#### **401k Withdrawals**

The new law includes a waiver of the 10 percent early withdrawal penalty on retirement account distributions of up to \$100,000 for taxpayers facing virus-related issues. Eligible accounts include IRAs, 401(k)s and other qualified trusts, certain deferred compensation plans and qualified annuities. The withdrawals are taxable over three years, and taxpayers are able to contribute the withdrawals back into the retirement account within three years, without impacting other contribution limits.

#### **Charitable Tax Break**

The law includes an above the line \$300 charitable contribution deduction for filers taking the standard deduction, and expanded limits on charitable contributions for those who do itemize. If you have been considering charitable giving, 2020 may be a great year to start and get a tax benefit you otherwise might not receive.

#### **Minimum Required Distributions Not Required in 2020**

The law includes a waiver of required minimum distributions for certain retirement plans in calendar year 2020. If you currently take automated withdrawals from your retirement account to satisfy a required minimum distribution, in certain circumstances we recommend canceling the automated withdrawals, and skipping withdrawals altogether, to allow the funds to continue to grow tax deferred.

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<sup>1</sup> What could go wrong?

<sup>2</sup> We can't wait to see what this actually means.

### **Your Health Insurance and COVID-19**

The law requires that all private insurance plans cover COVID-19 treatments and vaccines, and requires that COVID-19 testing be included for free.

### **Student Loan Breaks**

The law includes the temporary suspension of payments for federal student loans until September 30, 2020. During this time, interest will not accrue. This creates a great opportunity for those with student loans to temporarily redirect those payments into an investment or retirement account and participate in the eventual market recovery, or make additional payments on higher interest debt in lieu of the student loan payments.

Also under the law, a portion of employer paid student loans are temporarily not taxable. Normally, if an employer makes student loan payments on behalf of an employee, the employee must claim the payments as taxable income. Under the CARES Act, employers can contribute up to \$5,250 per year towards student loans and the payments are not included in the employee's income.

### **Expanded Unemployment Insurance for Workers.**

This includes a \$600 per week increase in benefits for up to four months, and now includes workers that are not usually eligible for unemployment insurance such as the self-employed, independent contractors and those with limited work history. The new law also provides a 13-week extension of unemployment insurance.

With such sweeping provisions, all Americans at some level will economically benefit.<sup>3</sup> The CARES Act is one of the largest economic plans ever to come out of Congress.

We look forward to working with you to ensure we take advantage of the provisions that may have a positive personal impact for you and your family.

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<sup>3</sup> And we can promise you all Americans, someday, will pay for it!