

# Overview of the CARES Act

On March 27, 2020, the government passed the largest stimulus bill in our country's history. Passed with bi-partisan support, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), will provide \$2 trillion of relief to individuals and businesses impacted by the COVID-19 pandemic. In addition to the CARES Act, other actions taken by the government related to tax filing deadlines hope to provide relief to those impacted by this economic shock. The broad elements of the CARES Act and other government actions are highlighted below.

## Help for Individuals and Families

### Immediate payments of \$1,200/2,400<sup>1</sup>

In April, many individuals and families will receive a direct cash payment as a rebate from the U.S. Treasury. Most families will receive \$1,200 for each adult and \$500 for each child under 17, while others will see these reduced or eliminated based upon their income. Taxpayers with an adjusted gross income of less than \$75,000 (single filers) or \$150,000 (married filing jointly) will receive the full rebate amount, and rebates are reduced for those earning up to \$99,000 (single filers) or \$198,000 (married filing jointly).

There are slightly different phaseouts for individuals and families with children. For these taxpayers, the refund amount is reduced by 5% of every \$1 earned over the above limits. For example, a married couple with 2 children and income of \$218,000 or more will not receive a payment.

Eligible recipients will automatically receive their rebates via direct deposit (using the bank instructions on file from previous returns) or regular mail. Rebates are being issued based upon the income reported on the most recently filed return (either 2018 or 2019). Additionally, some taxpayers may be eligible for rebates based upon their 2020 income (if they didn't receive a payment due to the income reported on their most recent return and their 2020 earnings are below the required thresholds).

### Additional unemployment benefits and expansion of eligibility<sup>2</sup>

Unemployment amounts will continue to be based on individual state programs, but the CARES Act provides an additional \$600 per week for four months on top of that base amount. If employees remain unemployed after their state benefits are exhausted, the federal government will fund up to 12 weeks of unemployment benefits. Additionally, the Act extends unemployment eligibility to include self-employed, independent contractors, and gig economy (i.e. ride share drivers) workers.

### Student loan relief<sup>3</sup>

For certain federal student loans, the CARES Act suspends all payments of principal and interest for six months. Employers may still contribute up to \$5,250 annually to employees' student loans but those contributions will not be considered compensation and therefore will not be taxed to the employee.

### Insurance coverage<sup>4</sup>

Any testing or COVID-19 treatments and vaccines must be covered under all private insurance plans. The Act also explains the coverage of telehealth services under Medicare. High deductible health plans with health savings account (HSAs) must also cover telehealth services even if patients have not met their annual deductible.

## Tax and Retirement Planning Relief

### Extended Illinois and Federal tax filing<sup>5 6</sup>

The due date to file 2019 tax returns for individuals and families (as well as most other taxpayers) has been extended to July 15, 2020.

- This extended due date also applies for federal payments for 2019 federal income tax and self-employment tax and for first

quarter 2020 estimated tax payments originally due by April 15th. Please keep in mind that while first quarter 2020 federal estimated tax payments can be delayed until July 15th; for now, second quarter estimated tax payments are still due on June 15th.

- These changes also impact the deadline to make year 2019 IRA, Roth IRA and HSA contributions. These contributions are now due by July 15th.
- Additionally, taxpayers can still file an extension to delay their returns to October 15, 2020.

There is no action necessary to take advantage – these are automatically granted.

Other states have also provided similar accommodations for state income tax returns and payments. For example, Illinois extended its due date for 2019 payments or filing of returns to align with the federal deadline of July 15th, and other states, including New York, California and Arizona, have also made similar announcements. Illinois has not extended the due date for 2020 estimated tax payments.

Keep in mind that taxpayers expecting a refund should file their returns as soon as possible, and refunds are currently being processed by the IRS and state tax agencies as they are received.

### **Access to retirement savings – penalty free withdrawals and enhanced loan programs<sup>7 8</sup>**

The CARES Act allows individuals to access funds in their qualified accounts (such as an IRA and/or employer-sponsored 401(k) retirement plan), if needed. Funds can be withdrawn from these accounts by requesting a Coronavirus Related Distribution (CRD).

Up to \$100,000 can be withdrawn during 2020 from qualified accounts as a CRD for those affected by COVID-19 (which includes individuals diagnosed with COVID-19, their spouse or dependents diagnosed with COVID-19, and those suffering adverse financial consequences due to COVID-19). The account owner self-certifies their eligibility for a CRD.

CRDs are not subject to the typical IRS 10% early withdrawal penalty for taxpayers age 59½ or younger or the typical 20% mandatory withholding rate for federal taxes. Additionally, ordinary income taxes due on the CRD can be paid equally over 3 years or the funds can be recontributed to the retirement account anytime within the 3-year period. Recontributions are treated as a rollover contribution and are not subject to the regular annual limits. Note that employers must amend their 401(k) retirement plan programs to allow for CRDs from their plans.

Alternatively, some employees may be able to take advantage of enhanced loan programs from their employer-sponsored 401(k) retirement accounts. The CARES Act allows employers to amend their loan programs to allow individuals to borrow funds from their retirement accounts and repay themselves with interest. These programs can now allow the following terms:

- Loans can be for as much as \$100,000 (increased from \$50,000)
- Loans can be equal to as much as 100% of the vested account balance (increased from 50%)
- All loan payments due between March 27th and December 31, 2020 (for new and existing loans) can be deferred for up to one year.

### **Waived required minimum distributions (RMDs)<sup>9</sup>**

Typically, account holders age 70½ (for those born before July 1, 1949) or age 72 (for those born after Jun 30, 1949) or older must take an annual taxable Required Minimum Distribution (RMD) withdrawal from their qualified retirement accounts, including their IRA and/or a previous employer's 401(k) or profit sharing plan account.

As these RMDs are calculated using the account's previous year-end value, withdrawals made after a significant market decline may result in a larger than intended distribution when measured as a percentage of the account. Additionally, this may require the sale of securities at distressed prices to provide for these amounts.

For 2020, this requirement has been waived for all qualified accounts subject to RMDs. This includes:

- Year 2020 RMDs
- Year 2019 RMDs for taxpayers attaining age 70½ in 2019 and who delayed their payment until April 1, 2020

- RMDs from Inherited IRAs

Note that the current legislation as written does not address individuals who have already taken their 2020 RMDs. As such, the current remedy for those wishing to avoid the distribution for 2020 is to take advantage of the normal 60-day rollover rule, which allows an individual to return distributed funds (including any tax withholding) to their IRA account within 60 days of the distribution. This rule only applies to indirect rollovers (when the taxpayer has the potential use of the funds) and can only be used once during a 12-month period.

## **Enhanced tax benefits for 2020 charitable contributions**

Under prior guidelines, it was necessary for taxpayers to itemize their deductions to receive the maximum tax benefit for their charitable contributions. The CARES Act allows non-itemized filers to deduct up to \$300 from their taxable income for cash contributions made for 2020.

Additionally, deduction limits for itemized filers have been relaxed for 2020. Under previous rules, these deductions were capped at 60% of the taxpayer's adjusted gross income. The CARES Act essentially removes this cap for 2020.

Both rules only apply to cash contributions to eligible public charities. Donations of appreciated securities or real estate, or donations made to private foundations or Donor Advised Funds, do not receive the enhanced tax treatment.

## **Relief for Small Business Owners – Small Business Loans**

### **“Paycheck Protection” Loans**

Employers with less than 500 employees are eligible to apply for federal loans up to a maximum of the lesser of \$10 million or 2.5x average payroll expenses. Highlights include:

- The interest rates on these loans will be capped at 4% and are **available for both for-profit and non-profit businesses**.
- All payments (principal and interest) can be deferred at least six months and up to a year.
- The term of the loan can be up to 10 years, with no prepayment penalty.
- The loans may be forgiven if, within the first eight weeks after receiving the loan, the business uses the funds to pay for rent, interest on a mortgage, payroll costs for workers making less than \$100,000, health insurance premiums, and utility payments.

There are several requirements and restrictions that come along with this loan. If an employer lays off workers or reduces total wages and salaries by more than 25% during the covered period, the amount of the loan that is forgiven is reduced by that same amount. Further guidance on the loan program is expected in the coming days.

### **SBA Economic Injury Disaster Loan (EIDL) Program**

The EIDL is another SBA loan program available for small businesses during the COVID-19 pandemic. Under the EIDL, businesses can receive loans for up to \$2 million for costs associated with operations, payroll, and debt. As part of the CARES Act, applicants for EIDL may be eligible for emergency grants that provide an advance of up to \$10,000 within three days of receipt of application. These emergency grants are not subject to repayment even if the business's loan request is denied. If a business applies for this emergency grant and then gets approved for the Paycheck Protection loan (above), the advanced amount will be reduced from the loan forgiveness amount of the Paycheck Protection loan. The EIDL Program requires that the business has suffered because of the COVID-19 Pandemic. As such, the loan must be used to pay for ongoing payroll and other business expenses and not for business expansions. The term of the EIDL is up to 30 years with a 3.75% interest rate (2.75% for nonprofits).

### **Payroll tax credit**

Under the CARES Act, employers who are not receiving SBA Loans as described above may be eligible for a tax credit for the employer's share of the 6.2% Social Security tax. To be eligible, the business must have had operations suspended due to a shutdown related to COVID-19 or have gross revenue decline by more than 50% in the current quarter when comparing to the same time period in 2019. The amount of the tax credit is subject to limitations based on qualifying wages and the number of employees.

## Deferral of payroll taxes

In addition to receiving the Social Security tax credit (above), businesses may also be able to defer the employer's share of the 6.2% Social Security tax paid on wages. This applies to wages paid beginning March 27, 2020 and ending on December 31, 2020. For self-employed individuals, a corresponding amount of the social security tax paid by those individuals is also permitted for deferral.

## Net Operating Loss (NOL)

As a result of COVID-19 pandemic, a significant number of companies are expected to suffer substantial losses in 2020. Under prior tax rules, losses were only permitted to be used against income from the prior two tax years. Under the CARES Act, losses can now be carried back to the prior five years to offset prior year income to claim a tax refund of previously paid federal income taxes. This new rule applies to losses arising after December 31, 2017 and before January 1, 2021 and allows the losses to be carried back to each of the five taxable years preceding the taxable year of the loss. Additionally, prior tax laws placed an 80% income limitation on the use of NOL carryovers for taxable years beginning January 1, 2021 and allows 100% of any taxable income.

## Corporate charitable contributions

The CARES Act increased the income limits on the deduction for corporate charitable donations from 10% of the corporation's taxable income to 25% of the corporation's taxable income. This is only applicable to cash contributions and cannot be used for stock donations. If applied, this increases the amount of deduction the corporation can take. The CARES Act also increases the limitation on deductions for contributions of food inventory from 15% to 25%.

## Additional Provisions

### Money provided to support U.S. health system

The CARES Act provides roughly \$100 billion for hospitals responding to the virus and additional money to grants for COVID-19 testing by federally funded healthcare centers. The Act also expands funding to support rural healthcare with grants of \$79.5 million per year for the next five years. Additional provisions also support expediting the approval of drugs, increasing the availability of ventilators and masks, providing additional funding to the CDC, and expanding the reach of virtual doctors.

### Food security

Nearly a billion dollars is being given to ensure that Americans suffering from food insecurity will have access to meals. Certain households will be eligible for help as the student's school is closed due to the pandemic. The Act also expands certain eligibility requirements for the Supplemental Nutrition Assistance Program (SNAP) and removes the program's work requirements.

## Resources for further information

The CARES Act is a historic piece of legislation, as it aims to reduce the economic impacts that will likely result from this pandemic. There are many facets to the Act and more guidance is expected in the coming days and weeks. Until then, we recommend consulting with your accountant and Mesirov Wealth Advisor to see how any of this legislation may impact you. For additional resources, we recommend the following sites:

- <https://www.sba.gov/page/disaster-loan-applications>
- <https://www.sba.gov/funding-programs/loans/paycheck-protection-program>

<sup>1</sup>Calculate how much you'll get from the \$1,200 (or more) coronavirus checks ( <https://www.washingtonpost.com/graphics/business/coronavirus-stimulus-check-calculator/>)

<sup>2</sup>The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") Is Enacted Into Law ( <https://www.foley.com/en/insights/publications/2020/03/coronavirus-cares-act-enacted-into-law>)

<sup>3</sup>What's Inside The Senate's \$2 Trillion Coronavirus Aid Package ( <https://www.npr.org/2020/03/26/821457551/whats-inside-the-senate-s-2-trillion-coronavirus-aid-package>)

<sup>4</sup>The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") Is Enacted Into Law ( <https://www.foley.com/en/insights/publications/2020/03/coronavirus-cares-act-enacted-into-law>)

<sup>5</sup>BREAKING NEWS: U.S. TREASURY SECRETARY NOW SAYS TAX FILING DEADLINE IS MOVED TO JULY 15 ( <https://www.orba.com/news/breaking-u-s-treasury-secretary-now-says-tax-filing->

[deadline-is-moved-to-july-15/](#)

<sup>6</sup>BREAKING NEWS: ILLINOIS INCOME TAX FILING AND PAYMENT EXTENSION NOT PERFECT ( <https://www.orba.com/news/illinois-income-tax-filing-and-payment-extension-not-perfect/>)

<sup>7</sup>Employee Benefit Provisions in the CARES Act Provide Employer and Participant Relief ( <https://www.jdsupra.com/legalnews/employee-benefit-provisions-in-the-38028/>)

<sup>8</sup>Analyzing The CARES Act: From Rebate Checks To Small Business Relief For The Coronavirus Pandemic <https://www.kitces.com/blog/analyzing-the-cares-act-from-rebate-checks-to-small-business-relief-for-the-coronavirus-pandemic/>

<sup>9</sup>CARES Act Waives Required Minimum Distributions From Retirement Accounts for 2020 ( <https://www.aarp.org/money/investing/info-2020/cares-act-retiree-tax-benefit.html>)

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Rollovers of Retirement Plan and IRA Distributions (<https://www.irs.gov/retirement-plans/plan-participant-employee/rollovers-of-retirement-plan-and-ira-distributions>)

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CARES Act Expands SBA Loan Programs to Offer Relief for Small Businesses During the COVID-19 Pandemic (<http://www.gouldratner.com/publication/CARES-Act-Expands-SBA-Loan-Programs-To-Offer-Relief-for-Small-Businesses-During-COVID-19-Pandemic>)

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Here's What Is In The 'Families First' Coronavirus Aid Package Trump Approved ( <https://www.npr.org/2020/03/19/818322136/heres-what-is-in-the-families-first-coronavirus-aid-package-trump-approved>)

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