

CARES Act: Resources for Individuals

April 13, 2020

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief and Economic Security (CARES) Act - a historic \$2 trillion stimulus package to support individuals and small businesses facing challenges from the COVID-19 pandemic. Following are some of the key provisions in the Act that individuals need to know.

Direct Payments

American citizens will receive a one-time direct deposit of up to \$1,200, and married couples will get \$2,400, plus an additional \$500 per child (age 16 and under). The payments will be available for incomes up to \$75,000 for individuals and \$150,000 for married couples.

The payments begin to phase out at higher income levels depending on filing status (and reaches zero, for example, for a single filer with no children and adjusted gross income of \$99,000).

The cash payments are based on either your 2018 or 2019 tax filings. If you have not filed a 2018 or 2019 tax return (e.g., you receive Social Security benefits), there's no need to file taxes. The payment amounts for these individuals will be based on information provided by the Social Security Administration.

Stimulus credits to taxpayer bank accounts should start in late April. If you have previously set up direct deposit with the IRS; your check will be automatically deposited into your elected bank account. The IRS may issue guidance for taxpayers that have historically received refunds in the form of checks to input direct deposit info online. Stimulus credits in the form of paper checks may take several months to be mailed out.

No later than 15 days after receiving the payment, the IRS will mail you a notice to the last known address indicating how the payment was made, the amount of the payment, and an IRS phone number to report if you did not receive the payment.

How It Affects Your 2020 Tax Return

While you'll receive your check this year (in 2020), the IRS considers it as an advanced payment of a credit you will compute again on your 2020 tax

return. It's important to understand that, when 2021 rolls around and you prepare your 2020 tax return, you'll have to recompute the amount you're owed based on 2020 data and compare it to the payment you received.

If what you received was less than what you would have been owed based off actual 2020 information on your return, the excess amount will be treated as a credit that reduces your 2020 tax liability.

If what you received was greater than what you should have received based off actual 2020 information on your tax return, there are currently no details in the Act that require you to pay the excess amount back to the IRS.

Additional Unemployment Benefits

States will continue to pay unemployment to people who qualify. That amount varies state by state, as does the amount of time people can claim it. However, the CARES Act introduces significant changes to unemployment assistance for Americans, increasing benefits and broadening eligibility on top of state assistance.

The CARES Act adds \$600 per week from the federal government on top of whatever base amount a worker receives from the state. That boosted payment will last up to four months. The bill also adds 13 weeks of unemployment insurance. People nearing the maximum number of weeks allowed by their state would receive an extension. New filers would also be allowed to collect benefits for the longer period.

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Unemployment for the Self-Employed

Typically, self-employed individuals, freelancers and contractors can't apply for unemployment coverage. The CARES Act introduces a new program through Dec. 31, 2020 to assist people in these categories who lose work due to COVID-19. The Act provides specific definitions of "self-employed" based on entity structure, which may make some individuals non-eligible.

Retirement Funds

Required Minimum Distributions from retirement accounts have now been suspended for 2020. This suspension applies to anyone who had attained the age of 70 ½ before January 1, 2020.

The CARES Act introduces another significant retirement account provision for "affected individuals." If you are under the age of 59 ½, early retirement account distributions made between Jan. 1, 2020 and Dec. 31, 2020 are not subject to the additional 10% tax penalty (up to \$100,000).

This distribution will be included in income over three years, unless the taxpayer elects to include the full amount in 2020. Also, individuals who do receive a Coronavirus-related distribution may contribute back this amount over the following three years so as not to incur tax on the original withdrawal.

An affected individual meets one of the following criteria:

- ▶ Is diagnosed with COVID-19 by a test approved by the Centers for Disease Control and Prevention (CDC);
- ▶ Has a spouse or dependent that is diagnosed with such virus or disease by such a test; or
- ▶ Experiences adverse financial consequences as a result of being quarantined, being 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.

Health Protection

The deal provides over \$140 billion in appropriations to support the U.S. health system, \$100 billion of which will be injected directly into hospitals. The rest will provide personal and protective equipment for health care workers, testing supplies, increased workforce and training, accelerated Medicare payments, and supporting the CDC, among other health investments. All testing and potential vaccines for COVID-19 will be covered at no cost to patients.

The information provided in this document is not intended nor can it be used to avoid tax penalties levied by a taxing authority. Actions based on this information should not be taken without further consultation with a licensed tax professional.

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