

# CARES Act

## What CARES Act Means To Individuals

The CARES Act of 2020 is a \$2 trillion dollar package to help support individuals, businesses, and industries impacted by the economic shutdown caused by the coronavirus. There are many moving parts to the largest economic stimulus package in history. Gerber Kawasaki is working tirelessly to digest the new information coming out and how our clients can benefit.

We know this has been a tough time for many of our clients, friends and family. If there is anyone important to you that you think can use this information, please share. As new information comes out, we will continue to keep you updated. We are here for you.

- New Due Dates for Filing
- Recovery Rebates
- Tax-Favored Withdrawals from Retirement Plans
- Loans from Retirement Plans
- Temporary RMD Suspension
- Student Loans
- Unemployment Benefits
- Charitable Contributions

### New Due Dates (Filing Taxes and Retirement Plans)

*\*Anything that relates to taxes, we always recommend consulting with a tax professional.*

The IRS has postponed both filing a return and making income tax payments from April 15th, 2020 to July 15, 2020. This gives individuals an additional 90 days to make tax payments, interest and penalty-free. Individuals can still file beforehand and wait to pay until that deadline.

With the tax filing extension, IRA contribution deadlines are also delayed. Typically a 2019 Roth IRA or Traditional IRA contribution would need to be made by April 15, 2020. Individuals can now contribute through July 15, 2020 for the 2019 tax year.

You can find more information and more questions on this IRS FAQ page:

<https://www.irs.gov/newsroom/filing-and-payment-deadlines-questions-and-answers>

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### Recovery Rebates

Eligible individuals are allowed a credit of \$1,200 (\$2,400 for joint filers) plus \$500 for each qualifying child for the first taxable year beginning in 2020. An eligible individual is any individual who has a Social Security Number and who is not a nonresident alien, an individual who can be claimed as a dependent on another taxpayer's return or an estate or trust. The allowable credit is reduced by 5% of the eligible individual's adjusted gross income in excess of \$75,000 (all filers other than joint and head of household), \$112,500 (head of household), or \$150,000 (joint filers). The credit phases out entirely at \$99,000 (\$198,000 for joint filers).

It is important to note that these numbers are based on the last year that you filed your taxes. If you qualified for the credit based on 2018 earnings, but not 2019, you might want to wait until closer to the July deadline to file your taxes to take advantage of this program.

More information can be found on <https://www.irs.gov/coronavirus>

### Tax-Favored Withdrawals from Retirement Plans

If you need to take a "coronavirus-related" distribution from a retirement plan, such as IRAs, 401(k), and 403(b) plans, the early 10% IRS withdrawal penalty is suspended. You qualify for this penalty-free withdrawal if you or a spouse is diagnosed with COVID-19 or if you experienced financial hardship because of quarantine or other factors. Distributions cannot exceed \$100,000 and must be made before 12/31/2020. After the distribution one of two things is allowed:

1. If you plan to return the distribution to your retirement plan, you have three years to return the withdrawn amount and avoid paying income taxes.
2. If you don't plan on returning the distribution, you are still liable for the ordinary income taxes owed; however, you are able to spread the owed income taxes over a 3-year period beginning with the 2020 tax year.

### Loans from Retirement Plans

The amount that an individual may borrow from a qualified plan, such as a 401(k), is temporarily increased from \$50,000 to \$100,000. Increased loans are permitted in the 180 days beginning on the date of the CARES Act enactment. The full present value of the account is used in applying this increase, as opposed to one half the present value of the account. For example, if your 401(k) is currently worth \$100,000, you can now borrow up to \$100,000 -under previous rules you could only borrow 50% or \$50,000, whichever is less. Also, for outstanding loans, repayment dates are delayed for one year.

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### Temporary RMD Suspension

Required Minimum Distributions (RMDs) are suspended in 2020 for various retirement plans. Remember, the SECURE Act (signed into law 12/20/2019) increased the age to start taking required minimum distributions from 70 ½ to 72. If you turn 72 in 2020, you are eligible to skip taking your first RMD until next year.

### Student Loans

All Federal student loan repayments are suspended until September 30, 2020. There is no reason to make a payment over the next 6 months because interest will not accrue on this debt during the waiting period. Remember, payments will continue unless you proactively stop them.

Also, if you are using some form of student loan forgiveness (such as PAYE, REPAYE, and Public Service Loan Forgiveness ), these months of non-payment still count towards hitting the required number of years to qualify. You do not have to make payments.

### Unemployment Benefits

Self-employed individuals are now eligible for up to 39 weeks of benefits. The benefit period starts immediately as the normal, one-week waiting period has now been waived. In addition to normal state unemployment benefits, the federal government is now increasing the potential weekly benefit amount by \$600 per week. That means the previous \$1,800 per month maximum has been increased to a \$4,200 per month maximum. Unemployment compensation has also been increased for an additional 13 weeks.

### Charitable Contributions

For individuals who itemize their tax deductions, there has been a positive change in the maximum amount that can be contributed to public charities for this tax year. In past years, the maximum cash contribution was limited to 60% of your adjusted gross income. With the CARES Act, you can now make a cash contribution of up to 100% of your adjusted gross income to a public, charitable organization. Any amount that is in excess of a taxpayer's adjusted gross income may be carried forward for five years. This has the potential to completely eliminate a taxpayer's full tax liability for 2020.

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