2020 Year-End Tax Planning – Individuals

Dear Client:

On March 27, 2020, President Donald Trump signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act is the largest stimulus package in United States history with an estimated cost of $2.2 trillion. The CARES Act provides "recovery rebates" to individuals and provides tax relief for businesses and individuals. Below are some of the tax provisions provided for individuals under the CARES Act.

**Recovery rebates**

Individuals who cannot be claimed on another return will receive a recovery rebate of $1,200, $2,400 for MFJ taxpayers, plus an additional $500 for each qualifying child. The phase out for this rebate starts for incomes over $75,000 for single filers, $112,500 for head of household filers and $150,000 for MFJ filers. The rebate is reduced by $5 for every $100 that the taxpayer's income exceeds the threshold amount. The rebate is available only for individuals and qualifying children who have a Social Security number.

The IRS began direct depositing the rebate in April for individuals who are eligible based on the income reported on their 2019 return, if they had already filed and it has been processed, or their 2018 tax return if their 2019 return has not been processed. If a taxpayer received a rebate but their 2020 income makes them ineligible for the rebate, the taxpayer is not required to repay the rebate. On the other hand, if a taxpayer was not eligible for the rebate based on their 2018 or 2019 income, but they are eligible based on their 2020 income, they can claim the rebate as a credit on their 2020 tax return.

**Waiver of early-withdrawal penalty**

The CARES Act also waves the 10% penalty on an early withdrawal from a retirement account, up to $100,000, on distributions for coronavirus-related purposes made on or after Jan. 1, 2020. A distribution is considered a coronavirus-related distribution if made it is made to an individual:

* Who is diagnosed with SARS-CoV-2 or with COVID-19 by a test approved by the Centers for Disease Control and Prevention;
* Whose spouse or dependent is diagnosed with SARS-CoV-2 or COVID-19; or
* Who experiences adverse financial consequences due to being quarantined, being furloughed or laid off, having work hours reduced, or being unable to work due to lack of child care or the closing or reducing hours of a business the individual owns or operates, because of SARS-CoV-2 or COVID-19.

A taxpayer who takes a coronavirus-related distribution can report the income one of two ways. The taxpayer can either report the distribution as ordinary income over a three-year period beginning in 2020 or can recontribute the funds to a retirement plan within three years to avoid tax on the withdrawal altogether.

**Waiver of required minimum distributions (RMDs) for 2020**

The CARES Act waives the required minimum distributions rules for certain defined contribution plans and IRAs during 2020. The waiver does not apply to defined benefit plans, such as pensions.

**Charitable contribution provisions**

The CARES Act also added the following favorable rules to cash contributions made during 2020 to certain charities:

* Individuals who do not itemize can claim an above-the-line deduction of up to $300 for those contributions;
* Individuals who itemize can deduct contributions up to 100% of adjusted gross income; and
* Contributions made to donor-advised funds are not eligible for the incentives.

**Exclusion for student loan repayment**

Taxpayers can exclude up to $5,250 from income for student loan repayments made by their employer after March 27, 2020 and on or before Dec. 31, 2020. The exclusion is subject to the same rules and restrictions as an educational assistance program (e.g., the payments need to be available on a nondiscriminatory basis to employees who meet criteria established by the employer, cannot be in lieu of other taxable compensation, etc.). The exclusion appears to be available regardless if there is any connection to COVID-19.

The IRS will undoubtedly continue to release guidance over the coming weeks and months to clarify some areas with unanswered questions. In addition, Congress may modify certain rules in upcoming COVID-19 legislation. State rules and regulations will most likely change and grow over the coming months as state legislatures act in response to the pandemic.

Sincerely,



Certified Public Accountants